THE IMPLICATIONS OF TAKING THE TRANSPORTATION TRUST FUNDS OFF-BUDGET

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, MARCH 28, 1996

Serial No. 104–25

Printed for the use of the Committee on the Budget

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THE IMPLICATIONS OF TAKING THE TRANSPORTATION TRUST FUNDS OFF-BUDGET

THURSDAY, MARCH 28, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 11:04 a.m., in room 210, Cannon House Office Building, Hon. John R. Kasich (chairman of the committee) presiding.

Members present: Representatives Kasich, Hobson, Bass, Sabo, Stenholm, Coyne, Costello, Mink, Orton, Olver, Woolsey, Rivers, Doggett, and Pomeroy.

Chairman KASICH. We are going to have Messrs. Shuster and Oberstar, and then we are going to have Messrs. Livingston, Wolf, and Coleman. Then we will have an economist go over this issue.

Bud has got to be out of here at 11:30, Mr. Sabo, and you and I could make opening statements, but I don't see it as constructive. So why don't we just go ahead at this point and let Mr. Shuster go ahead and give his testimony and answer some questions. I want to keep him on track.

I want to thank Bud for being here this morning. I know how long he has been involved in this issue and how passionately he feels about it, and if there is anything I respect, it is passion.

Thanks for being here, Bud, and I look forward to your testimony. The floor is yours.

STATEMENT OF A PANEL CONSISTING OF HON. BUD SHUSTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA, AND HON. JAMES L. OBERSTAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

STATEMENT OF MR. SHUSTER

Mr. SHUSTER. Thank you very much, Mr. Chairman. I am pleased to be here.

In the next few weeks, the House is going to have a wonderful opportunity to do something very positive for the American people, and not only for this generation, but for the next generation as well, by acting favorably on H.R. 842, the Truth in Budgeting Act, which the House leadership has scheduled, as you know, for the week of April 15.

This is an opportunity to restore honesty in the budget process. It is an opportunity to restore trust in the trust fund. This legislation has extraordinary support from business, labor, the public sec-

tor, bipartisan support here in the Congress, 224 Members of the House of Representatives, a majority of the Republican Members of the House, nearly a majority of the Democratic Members of the house. A majority of the Republican freshmen are cosponsors of this legislation. Indeed, nine members of this Budget Committee are cosponsors of this legislation. So this legislation has, absolutely, extraordinary deep and broad bipartisan support.

By passing this legislation, we can put ourselves on a track to contributing to economic prosperity. This will create jobs, improve productivity, foster economic growth, and improve the quality of life for all Americans, and it does it in a way that is fiscally responsible, subject to congressional review, and consistent with our shared goal of balancing the Federal budget.

It puts the trust back in the trust fund. Self-financing trust funds can be one of the fairest ways that a government taxes its citizens, their user taxes. This revenue is derived from the taxes deposited into a trust fund, and then is used for the purpose for which the trust fund was established. That is what the purpose is. That is what the law says. That is what the original contract with America is.

We all talk about a contract with America, and many of us think the contract is very important, but the original contract with America was the contract that we entered into, that Dwight Eisenhower and the Congress entered into with the American people in 1956 and said you pay your gas tax, we will put it in a Highway Trust Fund, and we will spend it to improve the Nation's highways, and later, you pay your 10-percent airline ticket tax, and we will put it in an aviation trust fund, and we will improve America's aviation system. That was the original contract with America, and that contract has been violated.

In fact, indeed, when President Johnson created the so-called unified budget to try to hide the true cost of the Vietnam war, since that point, we have been, and Republican and Democratic administrations alike, artificially constraining spending from these trust funds.

The result, the cash balances in the Transportation Trust Funds now exceed $30 billion. In fact, here is a chart on just the Highway Trust Fund which we used last year to show the balance in that trust fund based on President Clinton's proposal.

However, if we were to pass his proposal, by the year 2002, the balance just in the Highway Trust Fund alone would go to $60 billion, and when you add the other Transportation Trust Funds, it would be $77 billion. Now, that is fundamentally dishonest to tell the American people you are going to pay a user fee for your highways and for your airports, and then not to spend the money, but to let that build up as those balances in those trust funds.

Washington has not fulfilled its fiduciary responsibility. In fact, if a lawyer managing a trust fund behaved in the same way that Washington has behaved, he would be put in jail. That is how serious this is. That is how dishonest the practices have been.

So it is time to put a stop to that. It is time to restore the trust in the trust funds, and H.R. 842 will do that by taking these trust funds out of the unified budget, thereby removing the temptation to misuse them. This will put the honesty back in budgeting.

The American people want an honest budget process. Using self-financed dedicated trust funds to mask the deficit or fund other programs simply isn't honest. It is a shell game. It is smoke and mirrors. It is budget gimmickry, and unfortunately, it is what the American people have come to expect of Washington. So, in a few weeks, we are going to have an opportunity to correct this deceitful practice.

Passage of 842 will send a powerful message to the American people. It will say no more Washington gimmicks, no more Washington rip-offs. We are putting honesty back in the Federal budget process.

H.R. 842 is critical to economic prosperity. The balances in those trust funds is a national disgrace, when we have such extraordinary infrastructure needs in this country. Indeed, if the money isn't needed for infrastructure, then we should cut the taxes. We shouldn't take these user fees and not use them.

The Federal Government's involvement in infrastructure goes back to the beginning of the Republic, and indeed, the Federal Government has been committed to infrastructure all the way from Henry Clay through Abraham Lincoln with the Transcontinental Railroad, Teddy Roosevelt with the Panama Canal, Eisenhower with the Interstate System, and the needs are enormous.

I won't take the time today to go through the details of what all those needs are, but just in general terms, for airport capacity, airports need $10 billion annually to maintain and improve U.S. airports. We are having an increase in aviation travel; 20 years ago, less than $200 million; now last year $540 million. We are going to have, as we go into the next century, over a billion passengers flying, and I hope we don't have to wait until we have two jumbo jets collide as a result of an inadequate air traffic control system because we didn't fund air traffic control out of the aviation trust fund.

So I think it is important that we recognize that need, and with respect to highways, our current level of investment is far short of the $55 billion a year that is needed to maintain current conditions in our highways. We are experiencing a 3-percent increase in highway travel every year. If you compound that out, and we are looking as we go into the next century, it is a 30-percent increase. This money has got to be spent to improve our highways, which will increase productivity, which will save lives.

In my own congressional district, we have Route 220, running north-south from Altoona to the Pennsylvania Turnpike, Altoona the only city in Pennsylvania that was not connected by a four-lane limited-access highway.

Since that highway has opened, in the last 5½ years, previously on old 220, we experienced six fatalities a year. Knock on wood, in the last 5½ years, we have had zero fatalities. There is nothing unique about that. That is what happens when you build a modern highway. You save lives.

We have also had an experience of 53 businesses locating along that new highway, that corridor, 4,000 jobs created, and a 17-percent increase in retail sales in the Altoona malls. Again, this is not unique. This is what happens when you build modern infrastructure, and it is another one of the reasons why we need to be mov-

ing so that this money can be spent for the purpose that it was intended.

H.R. 842 is fiscally responsible. First, the Transportation Trust Funds have built-in sequester mechanisms to ensure that the trust funds can never run a deficit. This is one of the few programs in Washington where there can be no deficit spending.

In fact, if the rest of the Federal Government had this type of built-in protection, we wouldn't have the budget problems we have today.

Second, H.R. 842 does not by itself have any effect on the deficit, as stated by the CBO cost estimate, and I quote CBO, "By itself, taking the programs off-budget does not change total spending of the Federal Government, and does not affect spending on revenue estimates for congressional scorekeeping purposes."

Third, since Congress plans to balance overall Federal spending by 2002, spending for trust fund programs, Transportation Trust Fund programs, would still count in determining whether the budget is balanced like Social Security. Transportation spending would remain a part of the debate.

Fourth, transportation spending would still be subject to congressional and Presidential control. Not one penny of the funding could be made available for transportation without the approval of the authorizing and appropriating committees. As stated in the CBO cost estimate, the likelihood and the amount of potential increase in transportation spending are very uncertain because they would depend upon future actions by both the authorizing and the appropriating committees.

Fifth, the authority of the Appropriations Committee, and this is very important—the authority of the Appropriations Committee would not change. They would still appropriate funds for appropriated programs, and they still would set the obligational ceilings for contract authority programs. The difference is they would lose the incentive to artificially ratchet down on transportation spending in order to mask the size of the general fund deficit.

Sixth, when it comes to the $30 billion in cash balances, we understand the difficulty of spending down these balances in a short time, Mr. Chairman. The decision on whether to draw-down these balances, and if so, in what timeframe, and under what circumstances is a decision that would be made in future authorizing and appropriations bills.

I want to emphasize this, Mr. Chairman, we are certainly willing to put everything on the table, including the possibility of not drawing down these balances or drawing them down only a small amount until the Federal budget is balanced.

Seventh, the economic growth and productivity gains generated by infrastructure investment will make it easier, not harder, to balance the budget by 2002. It is this sort of long-term, forward-looking vision that is lacking in the current budget debate.

So, in conclusion, Mr. Chairman, H.R. 842 is supported by over 75 organizations, including State and local governments, the National Association of Counties, the National Conference of State Legislators, and the National League of Cities. It is supported by labor, by small business, including the NFIB, by the U.S. Chamber of Commerce, by Agriculture, including the American Farm Bureau

and the National Grange, and by dozens, of course, of transportation interests.

Next month, we should seize the moment. Passage of 842 will restore confidence in government by giving us honesty in budgeting. We will create good jobs. Every billion dollars spent creates 42,000 jobs. We will improve our standard of living by promoting personal mobility, and it will be done in a fiscally responsible way in programs where there can be no deficit spending.

What better present for the American people in the same week that they have to pay their taxes to Uncle Sam to give them honesty in budgeting.

Let me conclude by something the Speaker said just a few months ago. He said, so the people who are paying the user fee are actually getting their money used for the purposes that the taxes were brought in to use it for. The Speaker's words, "I think it is totally wrong to be taking that money in as a user fee and then transferring it to hide the deficit."

So we have an opportunity here, and I would hope that we could be able, that we will pass it on the floor of the House by an overwhelming margin, and then I hope we will be able to sit down with you and our appropriator friends and work out the details of how we are going to spend money to build infrastructure to make America a better place for ourselves and our children.

Thank you, Mr. Chairman.

Chairman KASICH. Mr. Oberstar is recognized.

STATEMENT OF MR. OBERSTAR

Mr. Oberstar. Thank you very much, Mr. Chairman. It is a delight to follow Preacher Shuster in this "tent revival" that we have going here this morning. He has made the case with enthusiasm and vigor and zest and with a great deal of conviction, and together we have stood side by side on this issue for many years.

I appreciate the Budget Committee holding this hearing, Chairman Kasich, Mr. Sabo, leader on the Democratic side, and all of my colleagues who are gathered here today.

There are consequences for not making the investments in our highway and bridge program, in our airports, and in other elements of our national infrastructure. There are consequences for people in the marketplace. These infrastructure programs are a measure of public productivity. If the public sector is productive by doing what its responsibility is, building the roads, the bridges, the waterways, the sewerage treatment plants, the sewers, the airports, managing the airways, then the private sector in its turn will be productive by doing its job based upon the infrastructure that the public sector has created preparing for it.

We are not being fully productive in the public sector when we are not investing the full availability of funds in the highway and aviation trust funds. The consequences of not expanding our airport capacity, the hard side airport capacity, the consequence of not having invested early enough in modernization of the air traffic control system is that O'Hare Airport logged a milestone in January 1989 when it registered 100,000 hours of delay for the previous year and every year since then. Right behind it are Atlanta and Denver, and there are 20 other airports across the country, 23

other airports, in fact, that logged between 20,000 and 50,000 hours of delay.

There is another kind of delay, and that is what each of us experiences and our constituents experience when they sit in traffic on the Nation's major highways. Commuters waste 2 billion hours annually sitting in traffic because of freeway delays. That cuts our economy $45 billion a year in wasted fuel and lost productivity in the 50 largest cities of this country alone.

Delays nationwide average on the range of 14 million hours a year. That costs our economy $7.5 billion a year in lost travel time, wasted vacations, business meetings missed, and wasted opportunities.

While we are holding back revenues in the highway and aviation trust funds, our principal competitors are investing.

Japan has launched on a program over the balance of this decade and into the next century of $3 trillion investment in infrastructure, in all of their roadways, ports, waterway systems, their trains, $3 trillion because they know that their worldwide economy depends on their ability to move people to jobs and goods to market.

In Germany, the government has embarked on a $2-trillion infrastructure investment program over the balance of this decade, combining former East Germany, upgrading its infrastructure facilities, building new airports and the vast air space that they have acquired with the reunification of Germany. They are a powerhouse already. They are going to make themselves an even greater force in the world marketplace.

Even Taiwan's 15 million people have embarked on a $100-billion infrastructure investment and upgrading program over the next 5 years. We can do no less.

When the Highway Trust Fund was established in 1956, it was done with the understanding that highway projects take a long time to design, engineer, do a right-away acquisition, environmental studies, and then construct, 6 to 7 years on average for a major interstate segment. Locks and dams take even longer. Airport projects take up to 10 years from the time of conceptualization to aircraft actually taking off and landing on their runways.

The founders of the Interstate Highway System, my predecessor in Congress being one of them, John Blatnik, for whom I was administrative assistant for 12 years, knew that we needed a dedicated revenue stream, a dependable source of money that could not be interrupted year to year, that would not have stop-and-go financing. To accomplish that purpose, they established a user tax, a very simple concept that has been exceedingly effective, a gas tax, tax on the use that drivers make of our Nation's roadways.

That money was to be deposited into a trust fund. The trust fund would invest those dollars as soon as they come in, into U.S. Treasury notes, to be available for expenditure for these long-term projects, a dedicated revenue stream funded by the users of the system. It was exceedingly effective.

In fact, over the years that the gas tax has been increased, it was one of the few tax increases that have been passed virtually without debate and without opposition because people have had confidence that the dollars that they are paying in their user taxes

were used to build the highways and give them the mobility and the economic competitiveness that they need and that they were committed to when this fund was established, but in recent years, that confidence has been eroded.

The model of the Highway Trust Fund was picked up when the Airport and Airways Trust Fund was established in 1972, again, the concept of a dedicated revenue stream that would be antideficit, could not incur a deficit, and never has incurred a deficit. It was, again, established using the ticket tax, a passenger ticket tax, as a base for investment in improvement of our Nation's airways.

We are falling far short of the needs in building runways and taxiways, to expand our aviation system because, again, revenues are being withheld, not being spent for the purpose for which intended, the purpose for which people were taxed and agreed to be taxed to build these roadways and airways. All we are asking now is that we take the trust fund off-budget, out from under the constraints of the unified budget of the Federal Government.

Several years ago I sat up on the dais of the Budget Committee myself, Jim Miller was the Director of Office of Management and Budget, and I asked him about taking the trust fund off-budget, would it have a negative or positive effect, or any effect at all on the deficit. He said it would be neutral, it would not have an antideficit effect, nor would it contribute to the deficit, it would just be neutral.

Well, let's do that. Let's be neutral. Let's take it off-budget. Let's restore the confidence, as Chairman Shuster has said, of the public, in the Congress, and in these trust funds, so that the funds can flow forth to accomplish the purposes that we all want of building our national economy, of making the public sector productive, so that, in turn, the private sector can also be productive.

I would be glad to respond to any questions you may have.

[The prepared statement of Hon. James L. Oberstar follows:]

PREPARED STATEMENT OF HON. JAMES L. OBERSTAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

First of all, I would like to thank Chairman Kasich and ranking member Sabo for giving us the opportunity to testify today on the issue of taking the Transportation Trust Funds out of the budget process. This legislation is of great importance to me personally. It is also of great importance to the members of the Committee on Transportation and Infrastructure, all of whom cosponsor the bill, and to the majority of our colleagues in the House, who also are cosponsors. Finally, I cannot overemphasize the importance of this legislation to the people of our country; freeing the trust funds from the artificial and unnecessary constraints of the budget process will permit these funds to make a major contribution to reversing the deterioration of our Nation's transportation infrastructure. An improved infrastructure will not only create jobs, but will also increase the productivity and efficiency of our industries thereby enhancing their position in the fiercely competitive global economy.

The economic consequences of investing in our infrastructure should not be taken lightly, and our economic competitors know it. They have been devoting substantial resources to their long-term investments: Japan is spending $3 trillion over 10 years to improve its infrastructure; Germany is investing nearly $2 trillion in infrastructure investments to fully integrate its eastern states in to Europe's most powerful economy; and even Taiwan is proposing to spend more than $100 billion over the next 5 years to improve its infrastructure. Unfortunately, the United States ranks 55th in the world in infrastructure spending, based on 1993 statistics and we all know that this lack of investment is affecting our Nation's ability to compete—from 1979 to 1989, the United States productivity growth rate was only 35 percent of the average of other industrialized countries.

We must always remember that infrastructure is not just potholes—it is productivity; it is not just concrete—it is competitiveness. If we are going to compete effectively in the global economy, and if we want to enhance productivity, lower the cost of production, increase employment, and provide a living wage for all Americans, we need to raise the national consciousness on the importance of infrastructure investment, and that is also why I am testifying before your committee today.

Our failure to develop our transportation infrastructure has had serious, real-life consequences:

- 23 airports experience on average more than 20,000 hours of aircraft delay annually—passengers at O'Hare International Airport alone have suffered more than 100,000 hours of delays each year for the past 5 years;
- New York City wastes more water in 1 day, because of its antiquated systems, than London uses in 1 month;
- Each $1 billion reduction in infrastructure investment results in the loss of 46,000 jobs, including 12,800 in the construction industry and 34,000 in other goods producing and service industries;
- 15 locks on the inland waterway system average more than 3 hours of delay because of antiquated and outdated locks and dams—delays on the upper Mississippi River alone cost the economy $35 million each year;
- Commuters waste 2 billion hours annually sitting in traffic because of freeway delays—costing our economy $45 billion per year in wasted fuel and lost productivity in our Nation's 50 largest cities alone; and
- Contaminated water causes 900 deaths and almost 1 million illnesses each year—in 1993, 114 people died and 400,000 people fell ill in Milwaukee, WI, as a result of drinking water contaminated with the microscopic parasite crypto sporidium.

Although the needs for infrastructure improvement are great, we all recognize that our government's financial resources are limited. All of us who serve on various committees in the House are forced to make difficult and often heart-wrenching choices on what programs we will choose to fund with the resources that are available. Do we choose to increase Medicare and Head Start and cut student loans, welfare, and Medicaid? Many of us, including 225 Members of the House who cosponsor H.R. 842, believe that we could both lessen the burden on the general revenue and fund many of the Nation's infrastructure needs by using the self-supporting dedicated source of funding of the Transportation Trust Funds. This dedicated source of revenue will assure better long-term planning for multiyear capital programs and stimulate the entire economy by putting thousands of Americans back to work.

Before I provide a brief background on the Transportation Trust Funds and expand on the reasons why I and many others believe that it is so important to take these Transportation Trust Funds off budget, I would like to update you on the status of these funds.

As of now, approximately $30 billion of Transportation Trust Fund revenues haven't been spent. Given present budget realities the amount of unspent funds is likely to grow substantially over the next 7 years. I cannot emphasize too strongly that the projected growth in surplus is not limited to the President's budget. It will also occur under the budget proposals of the Republican Congress. In fact, that was the case with the budget resolution that this committee brought to the House floor last year.

The basic problem is that all major budget proposals would reduce or freeze spending for all domestic programs, including the trust funds. At the same time, the trust fund taxes, which no one is proposing to reduce, will automatically produce more revenues as traffic increases. The inevitable result is that trust fund revenues will exceed expenditures by increasingly greater amounts, thereby causing the unspent balances to escalate. These trends began in the 1980's, in the Reagan and Bush administrations.

The increase in trust fund surpluses during the past decade is wholly inconsistent with the principles established during the long history which lies behind these funds.

Two decades before I was first elected to Congress, a promise was made to the American people by President Eisenhower and the Congress. The promise, in 1956, was that the Federal Government would become stewards for a new partnership with the American people.

Motorists would pay a gasoline tax into a common trust fund and that trust fund—which could be used for no other purpose—would build America's interstate highways as well as other roads and bridges that were in the national interest.

That trust fund was later expanded to include subways and buses. In 1970, another trust fund was added to help build airports and replace aging air traffic control equipment. Smaller trust funds were later created to help ensure that our har-

bors and inland waterways remained viable and vital links in our transportation network.

All of these trust funds have common and unique characteristics which argue for special budget status:

- They are wholly self-financed by the users;
- They have dedicated revenue sources;
- They are self-supporting, operating on a pay-as-you-go basis;
- They are deficit-proof, with expenditures limited to receipts;
- They invest in infrastructure capital programs; and
- They finance long-range construction programs, which benefit from certainty in funding.

Taking the Transportation Trust Funds off-budget does not mean that we would lose control of spending for transportation infrastructure.

Under H.R. 842, the Secretary of Transportation and the Secretary of the Treasury would review Aviation, Inland Waterways, and Harbor Maintenance Fund spending annually and reduce spending proportionately for any trust fund in which the projected revenues would exceed authorizations. This mirrors the so-called Byrd amendment in the highway program which is intended to ensure that the Highway Trust Fund can never operate in a deficit regardless of how much spending Congress authorizes. Thus, all Transportation Trust Fund expenditures would be limited to receipts and subject to authorizations legislated by both houses and signed into law. Moreover, the Appropriations Committee could still continue to include annual obligation ceilings on transportation programs to control spending further. However, Transportation Trust Fund spending would not be included in that committee's 602 allocation, thereby removing the incentive to use Transportation Trust Fund programs to pay for nontrust fund accounts.

Mr. Chairman, taking the trust funds off-budget is not a partisan issue, again as witnessed by the bipartisan cosponsorship of H.R. 842. Rather, it is an issue of needs, economics, fairness, and simple arithmetic.

Mr. Chairman, the time has come to stop using the trust funds, which have not contributed in any way to the deficit, to offset general revenue spending. All of the revenues, including the interest earned by the trust funds, should be used to further enhance our economic viability and should not continue to be used to indirectly subsidize general fund programs.

Finally, Mr. Chairman, I thank you again for inviting me to testify today and to explain to the committee why I enthusiastically join Chairman Shuster in our efforts to pass H.R. 842, the Truth in Budgeting Act and restore trust to the trust funds.

Chairman KASICH. Thank you.

I just have two short questions. First of all, do we have that Greenspan chart?

Let me just ask Mr. Oberstar first. Jim Miller was the Budget Director. I don't know how long ago that was, a good man. Let me show you what Alan Greenspan said.

Moving programs off-budget could engender cynicism in financial markets in the public-at-large about the commitment and ability of the government to control Federal spending.

Mr. SHUSTER. Mr. Chairman.

Chairman KASICH. Yes.

Mr. SHUSTER. He wasn't referring to transportation programs. He was talking about other programs.

Chairman KASICH. No. He was talking about this whole idea of loosening the grip of our ability to have these trust funds on-budget and in control.

Mr. SHUSTER. Well, he certainly didn't say trust funds, and he didn't say Transportation Trust Funds.

Chairman KASICH. I will get you the quote in time for the floor. Go ahead, Jim.

Mr. OBERSTAR. "Moving programs off-budget could engender cynicism in financial markets and the public-at-large about the commitment of the Federal Government to control Federal spending."

First of all, there is an antideficit requirement in the Highway Trust Fund that it not incur a deficit. It has not incurred a deficit, and it is near 40 years of operation, nor has the Aviation Trust Fund. I don't know how you engender cynicism. In fact, there is a great deal of cynicism right now in the public about Highway Trust Fund dollars not being spent, being withheld, kept on the ledger of the Federal Government to cover up deficit incurred in other parts of the Federal Government. There is no ground for it.

Mr. SHUSTER. Mr. Chairman, if I might comment? I have read the letter, and you are correct, Mr. Chairman, he does include trust funds. That doesn't mean it is right, but I would like to further point out to you, I have just had put in my possession a letter signed by you and others, two others. It asks where is the truth in the Budgeting Act, and it goes on to say that the Highway Trust Fund has exceeded tax revenue.

Now, this is a wonderful example of budget gimmickry because that statement, taken by itself, is true, but what it doesn't say is that you are not counting the interest that has been paid into the trust fund by the Federal Government for borrowing it, and there is a little tiny problem here. It is called the law of the land. The law says that you do pay interest, and as a Republican, I can't believe that my Republican colleagues would be suggesting that you shouldn't count interest in trust funds.

One-half of the reserves in the Social Security Trust Fund is interest. Surely, we are not saying that you shouldn't count the interest. Are we going to tell that to Social Security recipients? I certainly hope not. It is the law of the land to count the interest, and the full story isn't told if you suggest that interest should not be counted. Change the law, then.

Chairman KASICH. Let me just suggest that the people testifying today lead the public to believe that we have drawers full of cash that we are withholding from spending, and let me just suggest that since the beginning of this program, from 1956 to 1995—let's just talk about the facts—we have collected $315 billion in taxes in the life of this fund, $315 billion. Do you know what we spent? $321 billion.

Mr. SHUSTER. How much in interest, Mr. Chairman?

Chairman KASICH. And you spent an additional $25 billion in interest.

The simple fact of the matter is your argument implies that we are collecting money and not spending it. What the public believes is that we are paying gas tax money and we are not spending it all, and the simple fact of the matter is, over the life of this fund, we have spent more than what we have taken in, and we have given you $25 billion in interest. That is a fact.

Let me just suggest to you that if we do what you want, how much more would the deficit go up?

Mr. SHUSTER. May I respond? First of all, the U.S. Treasury has certified—certified that there are over $30 billion of a cash balance in the Transportation Trust Funds.

If somebody wants to assert it is different, go argue with the U.S. Treasury. They have certified that there is over a $30-billion cash balance in the Transportation Trust Funds.

Chairman KASICH. Bud, I am not going to disagree with that.

Mr. SHUSTER. Thank you.

Chairman KASICH. The argument is almost based on the fact, and this is what people tell me, and I mean, I am not saying you are saying it, but I am telling you where the confusion is, people come in and they say, oh, we have paid all of these gas taxes and you are not spending it all. When I tell the people, no, no, you have got it wrong, in fact, the last 15 years, we have overspent it, every single year, they go, oh, I didn't realize that.

Mr. SHUSTER. But there wouldn't be a $30-billion balance in it, Mr. Chairman.

Chairman KASICH. Let me go on

No. What happened was, back in the 1960's, there was some borrowing that went on from this trust fund, but since 1980, I mean, you are $14 billion in the hole since 1980. You have spent $14 billion more than what the public has paid in gas taxes.

Mr. SHUSTER. Look at the chart, Mr. Chairman. Those aren't our numbers. Those are the Treasury Department's numbers.

Chairman KASICH. I am telling you what the facts are.

In the last 15 years, you have spent $14 billion more than what came in. That is a fact. The fact that you have got a cash balance here, I am not disputing that. That is this shell game we are passing on to our children.

Mr. SHUSTER. Are you counting interest in those figures?

Chairman KASICH. No. I am talking about what people paid in when they went to the gas pump.

Mr. SHUSTER. But you are not counting the interest. Under the law of the land, there is interest added.

Chairman KASICH. Let me just suggest to you, I am not going to deny you the interest, but what I am going to say is I don't want you going out and spending all of this extra interest because do you know what happens, you either drive up the deficit or you cut other programs. Which would you like to do? Would you like to drive up the deficit, or do you want to cut other programs?

Mr. SHUSTER. As I said in my statement, Mr. Chairman, we are quite prepared to sit down and negotiate a compromise so that we put limits on this. In fact, that is what we have been trying to do for the past year. The Speaker, in good faith, put together a committee, a task force to try to do this, but, unfortunately, we ended up looking at ourselves in the room. Nobody came to the table.

Chairman KASICH. What I am asking you is if I am going to give you unlimited ability to spend the interest.

Mr. SHUSTER. It is not unlimited.

Chairman KASICH. If you take it off-budget, it is.

Mr. SHUSTER. No, it is not.

Chairman KASICH. When Mr. Wolf and Mr. Livingston gets here, I think that is what they are going to argue, but let's not even worry about that.

Mr. OBERSTAR. It is still subject to review of the Appropriations Committee.

Chairman KASICH. If you spend more money, the deficit goes up, correct?

Mr. OBERSTAR. No.

Chairman KASICH. Doesn't it?

Mr. SHUSTER. The Appropriations Committee sets the obligational ceiling. They will continue to set the obligational ceiling. That is a fact.

Chairman KASICH. But you are not under the caps, then. So you will have to borrow more money to spend this.

The deficit goes up if you go off-budget, doesn't it, if you spend more? How does the deficit go up?

Mr. SHUSTER. If we spend more than what comes in, but this gets to the whole question of honesty in budgeting. It is dishonest to collect these user fees and not spend them.

Chairman KASICH. The last 15 years, we have spent all the money that has come in, plus $14 billion extra.

Mr. SHUSTER. With great respect, Mr. Chairman, that is disingenuous. You have got to count the interest because the law says you count the interest, and if you don't count the interest here, are you not going to count the interest on the Social Security Trust Fund?

Chairman KASICH. Here is what I am suggesting, Bud. What I am suggesting is, first of all, the implication—and I am not saying you do it—the understanding of the public is there is this money we are paying in gas taxes, and we are not spending it all.

Mr. SHUSTER. That is correct. There is a $31-billion balance.

Chairman KASICH. That is not correct.

What is correct is over the life of the program. Forget the interest.

Mr. SHUSTER. You can't forget the interest, Mr. Chairman.

Chairman KASICH. Just forget the interest for a second. Wait a minute.

Mr. SHUSTER. The law says you have got to count the interest.

Chairman KASICH. Mr. Chairman, let me just communicate. I mean, I think we know what we are trying to say, and then we will get to the interest.

Over the life of this fund, we have expended more than what people paid in gas taxes. In Federal gas taxes, we have spent more than that.

There is an interest accumulation based on borrowing we did in the 1960's. Let us put the interest in there. We have given you $25 billion in interest. We have lived up to that, but what we are saying now is you are outside the appropriation process, you are off-budget, if you expend——

Mr. SHUSTER. We are not outside the appropriations process. They continue to have the ability to set the obligational ceiling. That doesn't change.

Chairman KASICH. Look, the fact is that if you spend more here, you are either going to raise the deficit or you have got to spend less somewhere else.

Mr. SHUSTER. It is called honesty in budgeting.

Chairman KASICH. OK. I mean, the question is, do we want to have control of a process that allows us to set priorities or control our deficit. I mean, that is really what it comes down to.

I respect where you are coming from on this, but I think people ought to understand what is going on, what the facts are. I think you make a good case, but I think when the public understands what we are really talking about here, which is the potential of

higher deficits, less spending on—I don't want to get into the litany that I get from my Democratic colleagues of all the cuts that could be made over here, but you know what they are. They all get down to tradeoffs.

What we are trying to do is to make sure that we have got control over what the tradeoffs ought to be and what the deficits ought to be, but, again, I respect your passion. I mean, you are unbelievable. You have pushed this thing. We are going to go to the floor, and we will see what happens up there.

I would say to you, Mr. Shuster, that I was not one of the ones that didn't want to go to the table. You know I sat in the room and watched you and the appropriators fight like cats and dogs, and frankly, with all of the fights I am in the middle of, it was kind of interesting to have a ringside seat, but you did try to make an effort to work this out.

I think, frankly, the appropriators can't figure out how it can be worked out.

Let me go to Mr. Sabo and recognize him.

Mr. SABO. Thank you, Mr. Chairman.

Let me ask some questions to try and understand fully what you have interest in. As I understand the situation, clearly, the chairman is right, if you increase spending someplace else, it means less spending or higher revenue someplace else. There is no Santa Claus.

As the system works today, since 1990 we have had caps on discretionary spending. Clearly, any budget proposal into the future will, again, have caps on discretionary spending, both on budget authority and on outlays.

However, as I understand particularly the highway fund, you have contract authority. So that does not count against the budget authority allocated or discretionary spending, but clearly, that contract authority creates outlays. Those outlays from the Highway Trust Fund and the outlays from the Airport Trust Fund count toward the discretionary spending levels that the Congress sets to control overall spending.

As I understand your bill, to some degree what you are doing is reducing those caps to accommodate current spending inflated. Is that accurate?

Mr. SHUSTER. It sets these funds outside of the budget, the general fund budget.

Mr. SABO. Yes, but you also reduce the discretionary spending caps, do you not, by some amount?

Mr. SHUSTER. Not in our bill, no, we do not.

Mr. OBERSTAR. The bill doesn't address the matter of discretionary spending caps.

Mr. SABO. Pardon me?

Mr. OBERSTAR. The bill does not address the matter of discretionary spending caps, or any cap for that matter.

Mr. SHUSTER. OMB would do that.

Mr. SABO. Yes, but the OMB has to do it.

Mr. SHUSTER. They would set it. We don't set it.

Mr. SABO. As I understand it, they do it on the basis of 95 inflated, is that it, that they reduce the discretionary spending caps?

Mr. SHUSTER. It would be up to them. That is their decision, not ours.

Mr. OBERSTAR. There is some alchemy they use there, Mr. Sabo.

Mr. SABO. What it means is——

Mr. OBERSTAR. The formula is——

Mr. SABO. I forget the number. What is it—540 or so, in total, roughly?

Mr. OBERSTAR. Yes.

Mr. SABO. 530? That those figures then would go down to 520, 510, whatever the number is, the 95 was inflated. Your goal clearly is to spend more than that. They have higher outlays.

Mr. SHUSTER. Our goal is to be honest with the American people and spend the money that is in the Transportation Trust Funds, within limits.

Mr. SABO. Your goal is to have greater outlays than you would if no change was made.

Mr. OBERSTAR. Yes.

Mr. SABO. That clearly, then, has to be made up someplace.

Mr. SHUSTER. Or, to come to the floor to reduce the taxes, so we are honest with the American people. If we can't spend the money, then we ought to reduce the taxes and put the programs with the States.

Mr. SABO. You are making judgments, a variety, I would say, of different judgments on that.

I, frankly, think in the airway fund that that should have been paying 85 percent of the cost of operations of FAA over the years, and if it had, most of that surplus would have disappeared. The fact is general revenues heavily subsidize the operation of FAA.

Just so we understand the numbers, your goal is that more outlays will be made for highways and airports than exists under current law, and under the current budget process. Someplace that has got to be made up.

Mr. SHUSTER. Our goal is to spend the money that is there.

Mr. SABO. I hear from every committee, and every committee says it would be great if more was spent on their particular program.

Mr. SHUSTER. These are trust funds, not general funds spending.

Mr. SABO. I understand. I understand, but when we control trying to achieve certain spending targets, all money counts and all money has impact.

Mr. SHUSTER. Trust fund money should not be treated the same as general fund money.

Mr. SABO. Ultimately, that means something else has to go down more. That is the tradeoff.

Mr. SHUSTER. It is called honesty.

Mr. SABO. Or, the deficit goes up, one or the other.

Just so I understand it, it is basically saying there should be a budget process which puts these funds beyond all the other limits we have.

Mr. SHUSTER. No, no, no. There are many limits. There can be not one penny of deficit spending taking place. The appropriators set the obligational ceiling.

Mr. SABO. It would allow more generous spending on these programs within certain limits than the current process would produce.

Mr. SHUSTER. Only if the Congress so votes.

Mr. SABO. But that ultimately means that something else has to come down.

Mr. SHUSTER. Only if the Congress so votes.

Mr. SABO. Whether it is other entitlements or other discretionary spending, and it is sort of in a niche over by itself.

Frankly, to my Republican friends, that is one of the reasons I never thought the set-aside for defense within discretionary made any sense. It said, Defense, you can bring it down, but if you do, there is no tradeoff. It makes it less subject to scrutiny every year as we go through our spending process.

So, ultimately, it means a tradeoff with something else. If the tradeoffs are within discretionary spending, it clearly means you have less money.

I have a big letter from Congressman George Brown from the Science and Technology Committee. He makes all the same productivity arguments you make.

Mr. SHUSTER. He doesn't have a trust fund.

Mr. SABO. It means less for that.

Mr. SHUSTER. He doesn't have a user-financed trust fund.

Mr. SABO. I hear from my labor folks. Those tradeoffs are there. Let's not pretend they are not there.

You make a compelling case, and I am always impressed to the degree that people from each committee make the passionate plea for the relative importance of their spending, but, ultimately, it is a tradeoff with others. If it is within the discretionary account, it is a tradeoff with other discretionary spending.

Frankly, in all of our budget, and some of the things I support, I have a general concern that discretionary spending is too tight. But instead of having folks argue for higher discretionary spending limits, we have everybody coming in saying give us an exception, so we don't have to worry about relative discretionary spending limits. We will spend what we want for our priorities, and let a smaller and smaller group worry about what happens in discretionary spending versus entitlements.

That, in reality, is what this bill does. And you make your compelling case that this particular type of expenditure is more important than others.

Mr. SHUSTER. It is different. It is self-financing.

Mr. SABO. Well, everybody has a different description of that, but, ultimately, the argument is that your type of spending——

Mr. SHUSTER. The facts are the facts.

Mr. SABO [continuing]. Should have priority, should be removed from the debate over other spending priorities, so the folks or the advocates for this particular spending don't have to be worried about the overall budget decision that is made.

I think that, in reality, is the case, and the Congress has to decide whether the relative importance of this particular funding is above and beyond other programs.

We literally have hundreds of trust funds around where people can make the same argument.

Mr. SHUSTER. They are not self-financed.

Mr. SABO. Some are. Many are.

Mr. SHUSTER. The Transportation Trust Funds are deficit-proof and self-financed.

Mr. SABO. I understand that.

Mr. SHUSTER. Those are facts.

Mr. SABO. The reality is that it says that this type of spending is removed from the year-to-year analysis and the limits that we put on the budget in total.

Mr. SHUSTER. Respectfully, Mr. Sabo, that is just not the case.

Mr. SABO. The advocates and this group have sort of a free ride while we struggle with the other decisions.

Mr. SHUSTER. That is just factually not the case. The obligational ceiling remains to be set by the Appropriations Committee.

Mr. SABO. Yes, but it is removed from the discretionary spending caps.

Mr. SHUSTER. They can still set it.

Chairman KASICH. Would the gentleman yield?

There is no reason to set it.

Mr. SABO. No. It takes all of the pressure off. The pressure always is for bricks and mortar over other kinds of programs in our system, as I have discovered.

Chairman KASICH. Let us stop, and let me just say that I appreciate Chairman Shuster and Mr. Oberstar coming to the committee today. I kind of regret in a way that we had to have these kind of fireworks, but it is kind of what you have to go through.

I just want to thank you for coming because you didn't have to do this, and I appreciate your attending here, but we are going to fight you like crazy, as you know.

This is going to be better than Bruno/Tyson, and I hope we are not Bruno.

Mr. SHUSTER. At the end of the day, we will still be friends.

Chairman KASICH. Yes, we are. Yes, we are. We are Pennsylvanians, right?

Yes, Mr. Oberstar.

Mr. OBERSTAR. I just want to observe, first of all, under the law that established the highway user tax, every dollar collected must be invested in U.S. Treasury notes. You cannot avoid the responsibility of interest payments because the law says that is where those dollars go, as soon as they are collected, and there must be interest paid on it.

Maybe you want to consider reestablishing the Highway Trust Fund in some other way, so that it is invested someplace else. The Federal Government doesn't manage it in that fashion.

Chairman KASICH. There may be another way.

Mr. OBERSTAR. You cannot just dismiss the interest.

Chairman KASICH. I want to thank you for coming. I appreciate it very much.

Mr. ORTON. Mr. Chairman.

Chairman KASICH. They have got to go.

Mr. ORTON. I simply want to raise one point that I think is valid for this committee with regard to these gentlemen's testimonies.

Chairman KASICH. Yes.

Mr. ORTON. Their main complaint is with regard to the unified budget. The fact is that including trust funds in the unified budget masks other deficits or other spending. If we do what they want, it is a $30- to $60-billion problem over the next 7 years.

The real problem, if we are going to take action on this unified budget issue and take trust funds off the unified budget, is that you have a monster out there called Social Security, which is generating $70 billion per year. If you take that off-budget, then you are going to end up with another half-trillion dollars in 7 years that you are going to have to identify somewhere. Either you have a half-trillion or a higher deficit, or you have the half-trillion more spending.

Chairman KASICH. I appreciate that.

Jim, go before you get——

Mr. OBERSTAR. Have a good fight.

Chairman KASICH. Let me just say to Mr. Orton, do you know what, Bill, this is all going to get exposed. Remember, now we are trying to lift 100 pounds in the gym, but you know what, our goal is going to have to be to lift, like, 300, and I am going to suggest to you, why do you think I am concerned about generational accounting?

Mr. ORTON. I think it is a legitimate debate, to talk about a unified budget, the process, and generational accounting.

Chairman KASICH. I don't think it is a legitimate debate. I think it is a megaproblem because the young people——

Mr. ORTON. I do, too.

Chairman KASICH. Let me have order in this room. I am trying to make an important point.

The point I am trying to make is that, first of all, the difference between Social Security and the Highway Trust Fund is Social Security is producing more money than what it is spending, but by the year 2012 or 2014, it goes into a negative balance, like this fund is, this current Highway Trust Fund, but the point is we are talking about obligations, and the obligations that we, the present generation, the last generation has rung up is probably near $10, $12, $14 trillion in debt that our generation is going to have to pay.

I keep talking about generational accounting. You are going nuts thinking I am trying to start some generational warfare. I think the young people need to know what is going on in the country.

Mr. ORTON. May I have 15 seconds to just finish the point?

Chairman KASICH. Yes, you sure can.

Mr. ORTON. I think the whole issue points out that, whether under your budget or whether under the budget I proposed, we show that we reach balance in 2002 under a unified budget. If you want to take trust funds off, we are going to have to find another $100 to $120 billion in reductions in that final year, let alone between now and then, in order to balance. That is what your generational accounting will show, that in order to really deal with the problem and generate the surpluses necessary in the Social Security fund to make sure that that money is there for the next generation, we have got to do even more cutting than either of us are proposing to do right now.

Chairman KASICH. Bill, that is right, and that is why yesterday when Martin and I were in here at the end with Chairman Green-

span—I think Charlie was here, maybe a couple of other members—that I get sometimes depressed about the fact that we can't even do this.

As Newsweek pointed out, if we can't just do this, how are we going to do what we really are going to have to do?

Martin is sober enough to say there are some changes we can make. Frankly, I don't know. Now we are taking this thing off-budget and using interest and not being able to control this interest spending, which puts them in even a tougher position.

It is like Santa Claus. Here, let us just spend. Everybody, here, let's just consume.

The lady reporter out here that is carrying a baby, we worry about her kid.

Ms. WOOSLEY. Mr. Chairman.

Chairman KASICH. Yes.

Ms. WOOSLEY. Could I just add something that seems to be missing here because it wouldn't be scored, but makes sense? It is that bricks and mortar provide jobs that pay a livable wage in this country, and investment in our infrastructure takes care of the needs of our Nation and our community. Actually, we may have less of a need for entitlement programs if we had jobs that paid a livable wage—the two go hand in hand. I just think we are making a huge mistake by ignoring that.

Chairman KASICH. I want to get to our witnesses, but let me just suggest to you that I really wish the decision on infrastructure in this country was made on the basis of need because all too many times, if you talk to the transportation people across this country, the decision is made on the basis of politics, not on the basis of need.

Frankly, I don't think we ought to have a Highway Trust Fund. I don't think we ought to have a Federal Department of Transportation. Let the States keep the money, and let them run their own programs. That is what we are going to push for here.

Let's put a couple of charts up here.

The deficit spending, you can see, 214, 228 in the last 15 years. I mean, this is something people have to understand.

The interest payments into the trust fund from the general fund, you can see how they grow. No one is suggesting at this point that we not pay the interest. We are suggesting that we have got to be able to control the amount of money that gets spent on pavement. If you adopt a put-pavement-first philosophy, I don't know what you do about children.

So let's go to the most passionate man in America on this subject, Frank Wolf. Bob, it is not you. It is not you.

I have got to tell you, this is a great moment when we can actually be in here, appropriators and budgeteers actually in agreement, and I have got to tell you how much I enjoyed the fight, Frank, between you and Bud in the Speaker's office where I got to sit back and watch. It is the only time I have ever not been in a fight with you guys, I think.

Frank Wolf has been passionate on this, and I want to recognize him. I don't know if you want Bob Livingston to go first or let the chairman go first.

Then we have with us the gentleman from Texas who we are going to miss in the next Congress, my friend from El Paso, Mr. Coleman.

Bob, do you want to go first? Go ahead.

STATEMENT OF A PANEL CONSISTING OF HON. BOB LIVINGSTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA; HON. FRANK R. WOLF, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA; AND HON. RONALD D. COLEMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

STATEMENT OF MR. LIVINGSTON

Mr. LIVINGSTON. Mr. Chairman, Frank Wolf lives with this issue, day in and day out, but I would like to give you just a brief overview because this issue is important. I appreciate what you said earlier today and other days on this subject.

Despite the fact that a majority of the members of the committee have signed on to the off-budget bill—is that a vote?

Chairman KASICH. What I would suggest you do is let you do your testimony, and then if you gentlemen are available, we will break and then you can come back. I don't want to break your stride here. Let Bob do his deal, and then we will move on.

Go ahead, Bob.

Mr. LIVINGSTON. I will summarize my statement.

An historical analysis of the creation of the Appropriations Committee may be helpful today. The Ways and Means Committee was created originally, at the inception of the Nation for the purposes of raising revenues and spending money. In the wake of the Civil War, when expenditures grew out of proportion to previous expenditures, Congress separated the committee's taxing and spending powers, divided the committee, and the Appropriations Committee was instituted.

In the aftermath of the war, though, some people felt that all of the spending powers concentrated in the hands of the appropriators was too much. There were arguments and debates, much like you made here today, and so the Appropriations Committee was substantially restricted in the late 1800's in its ability to spend money and power was restored to the authorizing committees.

In World War I, the process was reversed, again, because, in essence, it was found that when the authorizers had the ability to create policy, to designate projects, and to appropriate money, that power was too highly concentrated in the hands of the legislative committees. So, again, the Appropriations Committee's importance was renewed.

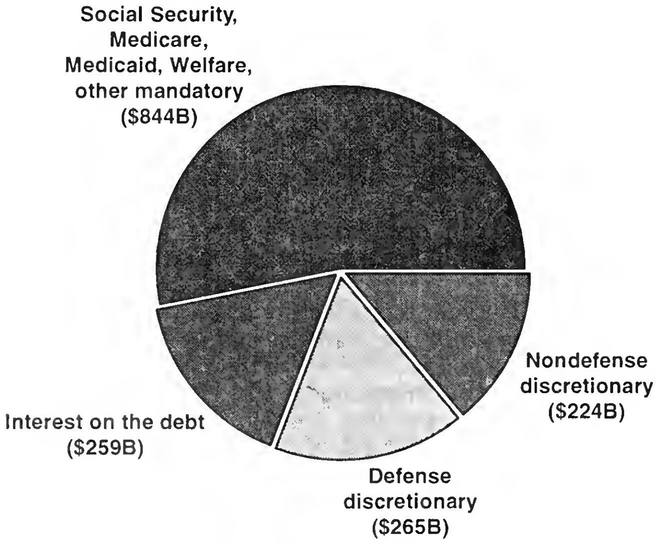
That cycle has continued on throughout the years because that is human nature. As any institution becomes powerful, then, luckily, within this Constitution of ours, the checks and balances set in and the process is reversed. Today, we now have a budget process which has created your committee to provide additional oversight. I would say that in the aftermath of the cold war, the natural proclivities of Congress are, again, seeking to restrict the role of the Appropriations Committee.

"Let us take things off-budget." "Let us allow the authorizers to make the specific targeted appropriations." "Let us let the legislative committees decide where the priorities lie." In fact, I have even heard, "Let's eliminate the Appropriations Committee altogether, who needs it?"

Chairman KASICH. We must debate on that right now.

Mr. LIVINGSTON. This debate is historical, and no matter what the decision is in the coming days or weeks or in this year, the process will again be visited at a later time because abuses will set in, and it will be reversed.

FY 1996 Federal Budget - $1.6 trillion



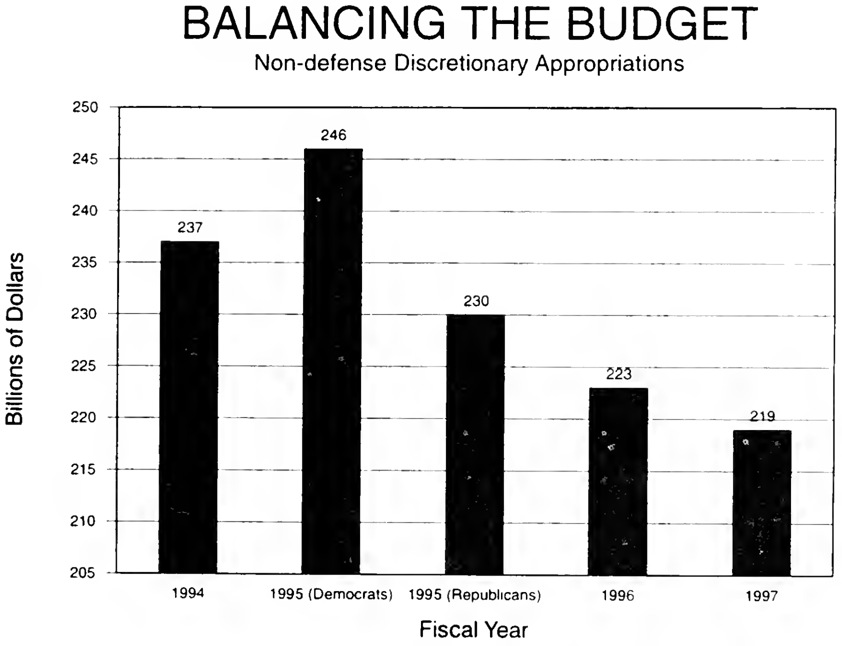
Let me show my colleagues what I have shown Chairman Kasich just about a week or so ago. I am not the budgeteer. You all are, but this is our view of the budget. In 1996, we will spend $1.6 trillion. Before the farm bill, this area of the pie chart depicted the amounts spent on entitlements. In the farm bill—it hasn't passed yet, we estimate we have created another $2 billion in entitlements. So you can figure that this figure will be a little bit larger.

This portion of the chart also includes Social Security, Medicare, Medicaid, Welfare, and other mandatory spending, all in blue. These mandatory programs, plus interest on the debt, are equally uncontrollable. Interest on the debt is in red.

This spending is growing. The blue portion of this pie chart is growing. Interest payments, depicted in red, are certainly growing. In fact, in all likelihood, in fiscal year 1997, for the first time in the United States' history, interest payments will exceed spending on national defense. The interest on the debt this next year is in all likelihood going to exceed defense spending for this Nation. If it does not in 1997, it certainly will in 1998. It is growing by leaps and bounds.

Everybody has been telling us as appropriators, let's take more money out of discretionary programs. Whether it is lock box or taking programs off-budget, the effect is to reduce discretionary spending even more. Well, discretionary spending is shrinking. We have actually been able to control discretionary spending.

It wasn't a few years ago, but it is now according to the trend we have set in motion. Before 1994, there was a forever-progressing trend upward that peaked in 1995. With the turnover of power from Democratic control to Republican control, discretionary spending is now on its way down.



In fiscal year 1994, discretionary spending totaled $237 billion; in fiscal year 1995, $246 billion. Last year, the Republicans took over and passed a rescission bill that knocked $246 billion down to $230 billion in fiscal year 1995. This year, we are currently at roughly $223 billion for discretionary spending, and according to the budget resolution which was proposed last year, next year in 1997, discretionary spending will total roughly $219 billion.

So discretionary spending is already heading down. We are getting a handle on the problem. We are not staying even. We are not doing what we used to do and throw in an inflation kicker, and we are certainly not growing. We are shrinking.

So where is the problem? The problem is here. It is in blue. The problem is in the uncontrollable two-thirds of the budget which is forever growing because we have held defense static. You may agree or disagree with that. The President disagrees with it, and we have reduced the nondiscretionary defense.

We are adding to the mandatory, uncontrollable programs. The farm bill added mandatory spending. The off-budget proposal that

is supported by the Transportation and Infrastructure Committee, would, if you take any trust funds off-budget, take $30 billion out of nondefense discretionary spending, out of the already-shrinking portion of the pie, and add it to mandatory spending, the blue section. The proposal aggravates the problem instead of solving it. It doesn't make sense.

I would urge you to listen to Frank Wolf. He will give you the details on the problem. A majority of Members are cosponsors. I won't be surprised if it passes, but I will be highly disappointed, just as I was when at the end of the farm bill when we created new entitlement programs, and we are still told to chop everything else.

I hear people concerned about the poor, the elderly, the infirm, the little kids, the old people, and they want to add money for these programs. Consider these folks are going to have an even tougher time sharing more of the necessary reductions if the measure to take the Transportation Trust Funds off-budget succeeds.

[The prepared statement of Hon. Bob Livingston follows:]

PREPARED STATEMENT OF HON. BOB LIVINGSTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA

Mr. Chairman, I appreciate the opportunity to appear before you today, and I applaud the committee for holding this hearing on such a critical issue. Although a majority of House Members have signed onto the off-budget bill (H.R. 842), the vast majority of Members signed on very early in this Congress, before the serious negative consequences of this bill were fully understood. I believe this hearing will help all of us more fully understand the ramifications of this far-reaching vote, soon to be before the House.

Mr. Chairman, this is not the first time an authorizing committee has tried, in one way or another, to force the Appropriations Committees and Congress to spend more money on the programs under their jurisdiction. In fact, the history of this body is replete with such examples. The Committee on Appropriations takes great pride in being a choke-point of Federal spending, and an organization—like the Budget Committee—which makes difficult tradeoffs among programs authorized by all of our legislative committees.

The Appropriations Committee was formed in 1865 specifically to bring centralized control over expenditures which had risen precipitously during the Civil War. When another financial crisis loomed around the time of World War I, increased authority was once again provided to the Appropriations Committee.

However, between 1877 and 1885, much of the power of the purse was stripped from the Appropriations Committees and given to legislative committees. Why? The country was growing at a rapid pace, and many in this body chafed at spending restrictions imposed in the appropriations process. This was especially evident in appropriations for roads, canals, and other public works, which benefit us all. Speaker Thomas Reed typified the view of many when he wrote in 1892:

"When economy is carried to extreme and becomes parsimony, it is only a hindrance and a stumbling block instead of a virtue. In 1885, economy had become parsimony, and the real needs of the country had been repeatedly sacrificed to a mere show of figures."

There is no question, Mr. Chairman, that when legislative committees were allowed to report appropriations bills with increased frequency during that time, increased spending was the result. Congressional debate and articles at that time believed so, and scholarly research conducted over the past 10 years verifies it.

As members of this committee know, there is near-constant pressure from the legislative committees to spend more and more money on their particular programs. That's not illogical, since most of us get on authorizing committees because we are interested in those programs, or they are important for our district. There's nothing wrong with this, but there must be built-in controls in the budget process, to counteract this natural advocacy. Usually this pressure takes the form of extravagant authorization ceilings not grounded in the budget process, then demands that programs be "fully funded" in the appropriations process. This general problem has been particularly true for any program funded with its own trust fund, and nowhere has the battle been more persistent or contentious than in the Federal highway program.

As the members of this committee know, the Congressional Budget Act struck a delicate compromise between the Public Works Committee, which wanted the transportation trust funds to be outside the appropriations process, and the primary sponsors of a unified budget, who wanted a consolidated budget where annual tradeoffs could be made among all the government's revenues and expenditures. The compromise allowed the authorizing committee to provide a special form of budget authority known as "contract authority."

However, to address the fact that contract authority programs could be scored as mandatory entitlements, since they were otherwise not subject to the annual budget process, the Budget Act allowed the Appropriations Committees to place "limitations on obligations" on contract authority programs each year. In this way, the Appropriations Committees retained the right to make tradeoffs between these and other programs each year during the annual budget process. And therein lies the rub, Mr. Chairman. Off-budget advocates have always resented the Congressional Budget Act for subjecting "their" trust funds to the same controls as other programs. It is this delicate compromise that, after more than 20 years, the Transportation Committee now wants to rip apart, in their desire for more spending.

Mr. Chairman, nobody likes budget constraints. Nobody likes the hard financial decisions that will have to be made to eliminate the deficit. The next few years will be hard on everyone who receives government spending, including the road builders and airport construction trades. The special interests all around Washington are trying to find ways out of the problem, and off-budget is just one manifestation of it. My committee, along with yours, is here to make painful decisions leading to the purpose of deficit reduction, in a responsible way. But we just can't do it if we keep giving more and more programs an exalted, protected status in the budget process.

And let's not fool ourselves. Many people are watching this vote. During a Senate off-budget debate in 1989, amendments were offered which would have taken 12 trust funds off-budget. Alice Rivlin wrote last year that taking the Transportation Trust Funds off-budget would in all likelihood lead to an avalanche of similar requests from advocates of spending from other trust funds.

Spending from the Transportation Trust Funds is now 12 percent of nondefense domestic discretionary outlays ($30 billion of $255 billion). We just took billions in discretionary spending for farm programs and made them mandatory. Now we're going to take off the table another, and much larger, chunk of discretionary spending—12 percent? Mr. Chairman, backdoor spending and entitlements have already reduced the domestic discretionary share of the budget to just 17 percent next year. Now we're talking about gutting what's left. Every fiscal conservative in the Congress, including those who signed onto the off-budget bill before knowing its effect on spending, should look carefully at what CBO, GAO and others say about its effects. Even Alan Greenspan, who is reluctant to comment on such matters, says off-budget "could engender cynicism in financial markets and the public at large about the commitment and ability of the government to control Federal spending."

We will hear a lot of talk from off-budget advocates, Mr. Chairman, about "restoring integrity" and they will use words like "truth" and "honesty." The bill is even titled "The Truth In Budgeting Act."

But as you know, Mr. Chairman, things are not always what they seem in this business. It's not uncommon to see one thing masquerading as another, hiding behind noble words and appeals to morality and fairness. But I would submit, Mr. Chairman, that if this were about honesty in budgeting, proponents would not have to resort to distortions and misinformation. For example, many of us have heard the tired old battle cry that the trust fund balances "are being held hostage to mask the Federal deficit." As this committee knows, and as CBO, OMB, and GAO have repeatedly pointed out, through Republican and Democratic administrations alike, the trust fund balances are not used in calculation of the Federal deficit. They have no effect on the deficit one way or the other.

No, Mr. Chairman, what we see in H.R. 842 is much more basic. This campaign is little more than the proponents of one type of government spending seeking to spend more at the expense of others, and to consolidate congressional power in the process, going around the Budget and Appropriations Committees. The likelihood that both defense and nondefense programs, as well as entitlements, would bear the burden of additional budget cuts is irrelevant to the main sponsors of this bill, because they are focused on one single goal—unfettered spending for highways and airports. This is not about truth, Mr. Chairman. It is about power and money.

Mr. Chairman, it is this body which has taken the lead in producing a fair and decisive budget which eliminates the deficit in 7 years. It is this body which has implemented strict internal reforms which reduce the influence of special interests and lobbyists. It is this body which has pledged to disperse power, not centralize

it; stop playing the old Washington games of one-upsmanship, power, and prestige; and stop the "inside the beltway" shell games with the budget.

How ironic it would be if this same body were now to pass off-budget, for it would tell the American people we are willing to hide some expenditures from the budget; that we are willing to suffer reductions in defense and even deeper cuts in other social programs in order to provide continuous increases for highways, mass transit systems, and airport construction programs. This is not a fair and balanced budget plan, Mr. Chairman, it is a special interest's dream. The road builders have been lobbying hard for off-budget ever since it was announced. In fact, when the legislative committee chairman and ranking Democrat announced this bill in their committee room last February, who did you see standing behind them in large numbers? Representatives of the road builders, asphalt layers, airport construction trades, and the travel and tourism lobbies.

This bill is wrong because it will increase spending at just the wrong time in our Nation's history; it fundamentally alters the balance of power among committees of this Congress; and it panders to the special interests and lobbyists.

Let me end, Mr. Chairman, by saying that this is not about party politics. This issue has been promoted for years, and it has never been about politics. It is about control of this institution and control of Federal spending.

Mr. Chairman, that concludes my formal statement. I ask the committee's permission to submit additional information for the hearing record which expands on my statement. I would be pleased to answer any questions you may have.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON APPROPRIATIONS,
Washington, DC, March 27, 1996.

IT'S TIME TO DECLARE VICTORY!

DEAR REPUBLICAN COLLEAGUE: Republicans are missing a prime opportunity to declare victory! The attached bar graph shows just how much we've accomplished in our efforts to downsize Federal spending. The Budget Resolution stated that in order to balance the budget in 7 years, discretionary spending needed to be cut $21 billion below last year. To date, we've cut $23 billion (and this doesn't even include the $20 billion we cut from FY95 during rescissions early last year). Regardless of what happens during conference on the omnibus spending bill, we will have saved American taxpayers $23 billion from last year's levels. We will not violate our spending caps. This is a great victory, and I encourage you to share this story with your constituents and the press.

I'm hoping you'll realize after studying the pie chart that when it comes to balancing the budget, discretionary spending is not the problem. Our committee has done its job. In fact discretionary spending, which is one-third of the Federal budget, is the only part of the budget on track for balance in 7 years.

Please feel free to contact me or my staff if you have any questions about this information.

Sincerely,

BOB LIVINGSTON,
Appropriations Chairman.

Chairman KASICH. Let me thank the chairman.

We have got to run over and vote.

Let me suggest to the chairman that we are intently looking at the farm bill, and the preliminary reports, depending on those whole baseline, goofy Washington, inside-the-beltway, idiotic way in which we calculate things doesn't appear as though we created any new entitlements, but we are scrubbing it.

I would say to the chairman that as hard as we are sometimes on the discretionary spending, you know my passion for being able to control the real difficulty we have here, and if they have done that, we are going to go and we are going to smoke them on the floor on this whole field. We are going to work through it and make sure that what is good for the goose is good for the gander.

Thank you for your testimony.

Chairman KASICH. Nobody leave. When we come back, we have got a guy that is going to sing it from his soul, Frank Wolf.

[Recess.]

Chairman KASICH. The committee is back to order.

I appreciate, Chairman Wolf, you being here today. It is yours.

STATEMENT OF MR. WOLF

Mr. WOLF. Thank you, Mr. Chairman.

Let me just make a couple of comments. I am just going to submit most of my statement for the record. I want to say I do appreciate the fact that you and Mr. Sabo are involved in this. The second statement is meant quite seriously.

Several months ago, I wrote Senator Dole and the other people running for President urging them to appoint Jack Kemp as Vice President. The reason I said Jack Kemp is that he has a passion for ideas and compassion for people. If Senator Dole doesn't appoint Jack Kemp to be the Vice Presidential candidate, I hope that he appoints you because I think you have both passion and the compassion.

Moving into my statement——

Chairman KASICH. I am enjoying this now. Go ahead. You are warming me up.

Mr. WOLF. John, you know, though, that I am serious.

The second thing, which is not in my statement, is this whole issue is about money and power. Money and power, and to deny it any other way is to be hypocritical. So I just want to put it out there. It is about money and it is power. If you should do this, frankly, you would never, ever, ever balance the budget in this country.

As you said, significant transportation funding is provided through the general fund revenues. The highway funding, as I heard you say, has substantially exceeded trust fund tax receipts. Simply stated, the amount of money spent on transportation by the Federal Government exceeds the amount of the money provided for transportation funding from dedicated fund taxes.

Secondly, while transportation is vital to the country, there are many other important programs in need of critical funding.

Cancer research. My mom and dad both died of cancer. Alzheimer's research. I talked to somebody who has a loved one who has Alzheimer's. All of these other issues would be impacted.

We have a long way to go to balance the budget, but can you imagine how much more difficult it would be? We wouldn't even be able to do it. Under your leadership, and with Mr. Sabo to help you, we were able to get a reconciliation bill down to the President. He vetoed it. We believed he was wrong, but we know how tough it was. Can you imagine how much more difficult these budget decisions would be if we had to find an additional $30 billion in cuts?

As I said, Alzheimer's. You can put that issue on the House floor for a vote to cut spending. You will see a 435-to-0 vote.

Veterans. Every time the veterans issues come up, Members quickly run to make sure they vote for veterans. Veterans would be cut, and you go on and on.

I also want to say, and it was said, I think, by Mr. Sabo in his comments, there are 160 other dedicated trust funds currently in the unified budget. I will end with this: to get an objective view, I wrote to several dozen experts on this issue. Two of them are

going to appear today. I won't cover what they said, but the response from every person was clear and unequivocal. The experts say keep the Transportation Trust Funds as part of the unified budget. Do not make the changes.

One statement was by Mr. Boskin, if I can just briefly read. He said, and I quote, "I believe it is likely that moving one popular spending program primarily financed by earmarked revenues off-budget would lead to a stampede first of other trust funds off-budget and then all other spending programs seeking to be funded with earmarked revenue sources. This would quickly render sensible tax and budget policy impossible." Then he goes on into other things.

William Miller, former Federal Reserve Board Chairman and Secretary of Treasury, said, "I do not believe a case has been made for excluding the Transportation Trust Funds. From my experience as Secretary of the Treasury and Chairman of the Board of Governors of the Federal Reserve System, I would strongly recommend that you retain the present treatment of the Transportation Trust Funds so that there is no opportunity for losing accountability or setting precedents for further off balance sheet structures."

Herb Stein, a leading economist, said, "I would not favor moving the trust funds off the budget. We want to have a more comprehensive measure of the Federal Government's financial activities."

Mr. Blum, Deputy, Congressional Budget Office, said, "I will simply reaffirm the main point stated * * * the Federal budget should be comprehensive. Setting selected programs aside—that is, taking them 'off-budget'—can distort budget decisionmaking process," and I will just submit the rest for the record.

In closing, I appreciate both you and Mr. Sabo, and this committee engaging on this issue. When we go down to the floor, I am going to make it clear, we are talking about power, and we are talking about money. It is sand and gravel versus a senior citizen with Alzheimer's disease. It is sand and gravel versus cancer research. It is sand and gravel versus the environment. Quite frankly, if it passes, I think it will be a very dark day because it will send the message to the markets, to everyone who has ever given a speech and prayed for a balanced budget. Folks, it is just not going to come.

I will just now yield back the balance of my time.

[The prepared statement of Hon. Frank R. Wolf follows:]

PREPARED STATEMENT OF HON. FRANK R. WOLF, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Good morning, Mr. Chairman. I appreciate having this opportunity to appear before your committee to discuss a very important issue—the budgetary status of Transportation Trust Funds.

First, I do understand the frustration shown when Members of Congress and interest groups see transportation needs in their States that go unmet. And, I understand the frustration when full funding from Transportation Trust Funds isn't provided. However, it is important to keep in mind that while balances may remain in Transportation Trust Funds, these funds are generally already obligated.

Not only that, as you well know, Mr. Chairman, significant transportation funding is also provided through general fund revenues. In fact, highway funding has substantially exceeded trust fund tax receipts. Simply stated, the amount of money spent on transportation by the Federal Government exceeds the amount of money provided for transportation spending from dedicated trust fund taxes.

Second, while transportation is vital to the economic well-being of our country, there are other issues vying for priority status. There are many important programs

demanding critical funding and beyond that, Congress is committed to reining in the Federal deficit and balancing the budget. Congress has had a very difficult time making the tough choices necessary to work toward a balanced budget. We still have a long way to go to meet our deficit reduction goals, and many more tough choices to make. Can you imagine how much more difficult these decisions would be if we had to find an additional $30 billion in cuts? That's $30 billion in additional cuts. That's what we will have to do if Transportation Trust Funds are moved off-budget. If transportation spending gets special treatment, we will be faced with having to find $30 billion in cuts in discretionary spending in other parts of the budget.

Where would the $30 billion in cuts come from? How many want to cut medical research, to say "no" to cancer research or Alzheimer's research funding? How many want to say "no" to the Nation's veterans' health care program? Are we prepared to cut Head Start or education programs? Environmental protection programs? These are the kinds of spending programs that would face cuts—potentially significant cuts—if transportation spending is treated as an entitlement subject to preferential budgetary treatment.

Mr. Chairman, I do not believe Congress or the American people want to subject these critical programs to even further cuts. When we are concerned about providing adequate funding to provide basic health care, education programs, protection for our country's natural resources, when we are working to provide a sound and secure financial future for ourselves, our children and grandchildren, it is not the time to single out transportation to make it exempt from these tough choices. I would also point out that there are nearly 160 other dedicated trust funds currently part of the unified budget. What if we move all of the trust funds off-budget and establish each and every one of them as an entitlement subject to preferential treatment. What makes these trust funds different from the Transportation Trust Funds?

As important as transportation is, we have to balance transportation needs with all the other programs supported by the working men and women who are taxpayers. This country, all Americans, are in this together and we have to balance all the priorities and all the needs of all the people.

To get an objective view of this issue, I wrote to several dozen experts on the Federal budgetary process and transportation spending and asked their opinions on the status of transportation funds. I contacted economists; transportation, government, and public policy analysts; professors; current and former officials of the Congressional Budget Office and Office of Management and Budget; current and former members of the Federal Reserve Board; and current and former members of the President's Council of Economic Advisers.

The response has been clear and unequivocal: these experts say keep the Transportation Trust Funds as part of the unified budget. Do not make the changes we are talking about today.

Mr. Chairman, I brought with me copies of these experts' views and ask that they be submitted for the record. Their views—and their unanimity—leave little doubt. Moving Transportation Trust Funds off-budget does not represent sound fiscal policy or budgetary treatment.

I'd like to share just one thought from Michael Boskin, currently a professor and senior fellow at the Hoover Institution, Stanford University, and previously a member of the Presidential Council of Economic Advisers. He said: "I believe it is likely that moving one popular spending program primarily financed by earmarked revenues off-budget would lead to a stampede first of other trust funds off-budget and then all other spending programs seeking to be funded with earmarked revenue sources. This would quickly render sensible tax and budget policy impossible."

I think these experts express the critical issues best. A unified budget—which includes Transportation Trust Funds—is essential to maintaining accountability and control over the Federal budget and government spending. Moreover, a unified budget is necessary to allow Congress to make the difficult decisions on our budget in the fairest possible way. Creating another entitlement that is "off the table" is not fair. Nor is it the way to get a balanced budget.

Mr. Chairman, I appreciate having the opportunity to appear before your committee today and thank you for allowing me to share my views.

THE BROOKINGS INSTITUTION,
GOVERNMENTAL STUDIES PROGRAM,
Washington, DC, August 25, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR MR. CHAIRMAN: I am writing in response to proposals that would remove the Transportation Trust Funds from the Federal budget. I share the view that the unified budget should be preserved to ensure effective use of the budget as an instrument of fiscal policy and strong spending control.

There is no right time for giving the transportation funds off-budget status, but now would surely be the wrong time. Doing so would undermine Congress' commitment to balance the budget and control Federal spending. It would convey the message that the budget can be balanced on paper by excluding expenditures that are given preferred status. It would also convey the message that some programs can go on a spending spree while others are constrained by tight budget rules.

The greatest damage from taking these funds off-budget would likely occur if a balanced budget requirement were placed in the Constitution. The balanced budget amendment approved by the House earlier this year provides that in any fiscal year, the outlays of the U.S. Government shall not exceed the receipts of the U.S. Government. It is important to note that this language would cover the receipts and outlays of the Federal Government, even those that were excluded from the budget. What this means is that once a balanced budget rule is operative, there will be a strong incentive to go a step further and remove transportation spending from the government by creating new entities such as government-sponsored enterprises or public authorities. If this were to occur, congressional and Presidential control of trust funds would be greatly weakened.

The argument for off-budget Transportation Trust Funds is often made in terms of the need to upgrade the Nation's infrastructure. I am not convinced that the United States has seriously underinvested in transportation, but I do believe that the appropriate means of addressing this problem would be a capital budget rather than off-budget or off-government status. A capital budget would preserve the unified budget while providing better information on the condition of roads, airports, and other transportation assets.

Please call me if you want to discuss this matter further.

Sincerely,

ALLEN SCHICK,
Visiting Fellow.

HARVARD UNIVERSITY,
JOHN F. KENNEDY SCHOOL OF GOVERNMENT,
A. ALFRED TAUBMAN CENTER FOR STATE AND LOCAL GOVERNMENT,
Cambridge, MA, September 8, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR CONGRESSMAN WOLF: In response to your letter of August 23, 1995, requesting my thoughts about the debate over the fate of Transportation Trust Funds, I offer the following comments:

The Need for a Unified Budget. I tend to agree with analyses offered by OMB, GAO, and former OMB Director James Miller. Sound budgeting principals require a unified budget particularly in an era when deficit reduction is clearly the primary challenge facing the Congress and the executive branch. In this vein, I am particularly struck by GAO's assessment that efforts to take the trust funds off-budget are driven primarily by "fear of future budget constraints not actual past restrictions on spending." As Congress and the executive branch make the difficult decisions required to balance the budget, all sources of spending and revenue should be on the table.

Meeting Investment Needs. Moving Transportation Trust Funds off-budget might increase short-term spending on transportation. However, it is not at all clear that such spending would be in the national interest. To begin with, there is little credible evidence that the Nation is underinvesting in transportation infrastructure. Rather, most available evidence suggests that by picking up the bulk of the cost of many projects, the current system encourages inefficient decisionmaking at the State and local level and that redesigning current programs would provide more

than enough money to meet current needs. (See, for example, work by Edward Gramlich, Jack Tatom, George Peterson, or Clifford Winston).

Encouraging Poor Decisionmaking. If taking Transportation Trust Funds off-budget increases available Federal funds, then problems in the current system are likely to worsen. There would, for example, be more demonstration projects. Moreover, moving Transportation Trust Funds off-budget could exacerbate tensions between so-called donor and recipient States. While both demonstration projects and funding disparities have some grounding in legitimate questions of public policy and in the log rolling necessary to keep the legislative process moving, difficult fiscal times demand that Congress exercise more, not less, control over such activities.

Recovering All Costs. If, for political reasons, trust funds are moved off-budget, Congress and the executive branch should seriously consider expanding the scope of programs funded by those programs. At minimum this suggests that some transit aid now provided from the general fund ought to be shifted to the Highway Trust Fund's Transit Account. More broadly, many (but not all) economists argue that when all externalities (such as policing, damage from air pollution, and costs created by accidents) are factored in, highway user fees do not cover the full costs created by highway users. This suggests that shifting trust funds off-budget might be combined with an expansion of activities funded by those programs.

Seizing the Opportunity. The current budget fights offer policymakers such as yourself a rare opportunity to rethink the fundamental design of all Federal programs. Moving the trust funds off-budget would merely continue (and likely exacerbate) many well-recognized problems with the current Federal-aid system and make it even harder to accomplish Congress' overarching goal of balancing the budget in 7 years. It is, therefore a step that should not be taken lightly and, if it is taken at all, one that should be linked to key structural reforms.

I hope these comments are useful. If you or someone on your staff would like to discuss them further, feel free to call me.

Sincerely,

DAVID LUBEROFF,
Assistant Director.

BOARD OF GOVERNORS,
FEDERAL RESERVE SYSTEM,
Washington, DC, October 31, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR MR. CHAIRMAN: On behalf of myself and the other members of the Board, I am pleased to respond to your letter of September 26 requesting comment on proposals to move the Transportation Trust Funds off-budget. As a general matter, it has been the practice of the Board not to take positions on the details of the individual tax and spending issues that are before the Congress. However, the shifting of certain spending categories off-budget raises some broader concerns, with implications for discipline and control over Federal outlays. Notably, moving some spending categories off-budget would lead to fragmentation of the budgeting process and would detract from the unified budget as an indicator of the government's fiscal operations and hence of the impact of the U.S. budget on credit markets and the economy. Moreover, it could weaken the ability of the Congress to prioritize and control spending effectively.

As the letters from OMB Director Rivlin and former OMB Director Miller make clear, responsible budgeting requires a comprehensive framework for setting priorities and assessing competing claims on national resources. The unified budget, as commonly presented to include the Social Security Trust Funds, combines all fiscal transactions in one place. It thus helps policymakers and the public understand the tradeoffs among government programs, and between public and private spending. Moreover, as the focal point of the budget process, it places individual programs on a more comparable footing as they compete for Federal funding and thus helps the President and the Congress to resolve competing demands on the Nation's resources. Moving programs off-budget raises the risk that resource tradeoffs would become obscured and could engender cynicism in financial markets and the public at large about the commitment and ability of the government to control Federal spending.

We hope these comments are helpful in your deliberations.

Sincerely,

ALAN GREENSPAN,
Chairman.

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JOHNS HOPKINS UNIVERSITY,
INSTITUTE FOR POLICY STUDIES,
Baltimore, MD, September 21, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR CONGRESSMAN WOLF: I am writing in response to your letter of August 23, 1995, to express my opposition to moving Transportation Trust Funds off-budget. Thus, I would not support Congressman Shuster's legislation which would move four Transportation Trust Funds off-budget. I think this would set a dangerous precedent which would have serious long-term implications for the Nation's fiscal health as other user fee supported activities rush to be moved off-budget.

I would like to respond directly to the three main points raised in your letter. First, I agree with those opposed to moving the Transportation Trust Funds off-budget that a unified budget is essential to maintaining accountability and control over the Federal budget and government's claim on private resources. The unified Federal budget has received bipartisan support since 1969. It describes the aggregate economic activity and health of the Federal Government. Receipts and expenditures are detailed in one comprehensive package, providing decisionmakers and citizens valuable information on the government's activity and claim on national income. Fragmenting the budget presentation only obfuscates the Federal role in the economy and is totally inconsistent with efforts to reinvent government and improve its legitimacy with voters and citizens.

Second, the fact that these trust funds are financed from user fees is totally irrelevant to whether they should be moved off-budget. User fees are not synonymous with earmarked funds. User fees are proxies for prices which are necessary to provide suppliers of a service with information about the demand for specific services. Unfortunately, however, in the case of the Transportation Trust Funds, user fees are generally poor price proxies because they do not accurately reflect the total cost of providing transportation services. In any event, you obtain the rationing affect of prices, irrespective of decisions about how to allocate the revenues generated from those user fees. From an economic efficiency perspective, the two are not linked.

In addition, earmarking of revenues is generally not a desirable budgetary practice because it limits policymakers flexibility to respond to changing circumstances and priorities.

Third, it is not clear how much more spending the Nation needs on individual transportation modes. The demand for transportation services is a derived demand which depends on demographic, economic, and international trends beyond the control of policymakers in the United States. Policymakers need to understand those trends and the implications they have for the demand for transportation services in the United States. The limited resources available for transportation purposes should then be allocated in a manner which addresses the Nation's transportation needs as influenced by those trends. This may or may not be consistent with a policy of earmarking specific user fees for expenditures on the individual transportation mode that generated those revenues.

In an era of serious budget constraints at all levels of government, it is critical that policymakers have the flexibility necessary to respond to the changing transportation needs of the country. Thus, Congress may want to investigate new ways of applying Transportation Trust Fund revenues to meet these changing needs. For example, the Nation's transit needs have changed considerably since 1956 when the Highway Trust Fund was initiated. Perhaps it is time for the Federal Government to consider a single Transportation Trust Fund, with resources pooled from various user fees, so that funds could be distributed to meet America's diverse transportation needs in a more efficient manner. This is the approach taken by the Maryland State Department of Transportation and it is consistent with the increased flexibility and selectivity in the Intermodal Surface Transportation and Efficiency Act. Maybe the Federal Government has more to learn in this area from the experimentation taking place in the States.

It is entirely appropriate in my view to rethink the model of transportation finance developed over the past 50 years. Proper investment in diverse transportation modes will yield greater productivity and long-term economic strength. Restructuring the Federal budget process by moving Transportation Trust Funds off-budget, however, is neither necessary, appropriate, nor desirable.

Sincerely,

MICHAEL BELL,
Principal Research Scientist.

CONGRESSIONAL BUDGET OFFICE,
U.S. CONGRESS,
Washington, DC, January 26, 1996.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR CONGRESSMAN WOLF: This letter is in response to your request for additional comments as to whether the Transportation Trust Funds should remain part of the unified budget. My views are fully expressed in my previous letter, dated September 28, 1995, and I have nothing to add at this time.

I will simply reaffirm the main point stated in that letter: the Federal budget should be comprehensive. Setting selected programs aside—that is, taking them "off-budget"—can distort budget decisionmaking. For example, giving the Transportation Trust Funds a favored footing shifts the onus of deficit reduction to other programs that lack this protected status. In contrast, sound decisionmaking demands that spending and revenue proposals be evaluated on their merits and not on their budgetary status.

I have attached a copy of my earlier letter, which contains a more complete discussion of the possible consequences of designating certain programs as off-budget. I hope this information is helpful to you.

Sincerely,

JAMES L. BLUM,
Deputy Director.

Attachment.

CONGRESSIONAL BUDGET OFFICE,
U.S. CONGRESS,
Washington, DC, September 28, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR CONGRESSMAN WOLF: This is in response to your letter of September 20, 1995, asking for my views on whether the Federal Transportation Trust Funds should remain a part of the unified budget.

In short, I believe that the Federal budget should be comprehensive. Setting selected programs aside, and looking at only the remainder, can distort budget decisionmaking. Giving the Transportation Trust Funds a favored footing shifts the onus of deficit reduction to other programs that lack this protected status. Sound decisionmaking, in contrast, demands that spending and revenue proposals be evaluated on their merits and not on their budgetary status.

The extent to which taking the Transportation Trust Funds off-budget would distort budget decisionmaking depends on what budgetary procedures and controls would apply to them under their new status. This is not at all clear. For example, each of the three entities currently designated as off-budget—the Postal Service, Social Security, and Medicare hospital insurance—is treated differently under the rules and procedures of the Congressional Budget Act of 1974 (the Budget Act) and the Balanced Budget and Emergency Deficit Control Act of 1985 (the Balanced Budget Act). The Postal Service is exempt from both of these acts, although Federal payments to the Postal Service or payments from the Postal Service to the Federal Government are subject to both sets of rules. Legislation affecting Social Security benefits or revenues is not subject to the pay-as-you-go procedures of the Balanced Budget Act or to the Budget Act constraints that apply to other programs. There are, however, special rules that govern consideration of such legislation in the House and the Senate. In addition, discretionary Social Security administrative costs are subject to the statutory caps that limit total discretionary spending (and to any sequestration that would be triggered if the caps are exceeded) and to the allocations of discretionary spending that enforce spending decisions set forth in the annual congressional budget resolution. Despite its official off-budget status, the Medicare hospital insurance trust fund is not afforded any special treatment under either the Budget Act or the Balanced Budget Act (there is a limit on the sequestration percentage that would apply to Medicare, but there are similar limits or exemptions for many on-budget programs).

I assume the proponents of a proposal to move the Transportation Trust Funds off-budget view the funds as self-financing entities that should be subject only to internal financing constraints. Under the existing budgetary rules, the receipts

going into the trust funds and the spending from the trust funds are controlled by separate budgetary procedures. All outlays from the trust funds are counted as discretionary spending controlled by the caps set by the Balanced Budget Act and the allocations made pursuant to the annual budget resolution, while changes to governmental receipts are subject to the separate pay-as-you-go mechanism and the revenue floor set by the budget resolution. Under these procedures, legislated increases in trust fund receipts cannot be used to offset increased spending. Giving the Transportation Trust Funds off-budget status might allow such offsets. Furthermore, if trust fund spending were exempt from the caps that apply to other discretionary spending, the Congress could approve additional spending without providing offsets—presumably as long as there were adequate balances in the trust funds. This might create a closer long-term match between the income to the trust funds and the spending from the funds, which some would view as a more equitable outcome.

The arguments against giving these programs off-budget status involve a different view of Federal trust funds. Under this view, which is held by the Congressional Budget Office, the Transportation Trust Funds are simply an accounting mechanism, and spending on programs financed by trust funds should not be given a special status. Taxpayers' dollars are most effectively used if decisions about spending for transportation and other programs are made on the basis of the relative benefits to be derived, not on the basis of available earmarked revenues. For example, the Congress might decide that more money should be spent on certain transportation activities than is generated by the earmarked revenues—as it already does in the case of Federal Aviation Administration operations. At the same time, decisions about taxes should take into account factors beyond the level of spending on highways or other transportation programs. In 1990 and 1993, for example, the Congress increased fuel tax rates for deficit reduction purposes, placing part of the additional revenues into the general fund of the Treasury. Fuel taxes could also be considered a way of charging users for polluting the air.

I hope this analysis is helpful to you.

Sincerely,

JAMES L. BLUM,
Deputy Director.

STANFORD UNIVERSITY,
Stanford, CA, October 6, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR FRANK: This note responds to your request for my suggestions concerning whether the Federal Transportation Trust Fund should remain a part of the unified budget. I strongly oppose moving the Transportation Trust Funds off-budget.

Many would argue that Transportation Trust Funds collected from transportation "user fees" should be used only for transportation spending and should be removed from the unified budget to ensure that occurs. I believe it is likely that moving one popular spending program primarily financed by earmarked revenues off-budget would lead to a stampede first of other trust funds off-budget and then all other spending programs seeking to be funded with earmarked revenue sources. This would quickly render sensible tax and budget policy impossible.

I strongly side with those who, in this instance, support a unified budget as a (however imperfect) vehicle for maintaining accountability and control, as you put it in your cover note. I also believe that it is desirable to have everything the government does reflected in one place, as the unified budget imperfectly attempts to do. This is the only way one can begin to hope that a sensible discussion of the tradeoffs among budget priorities can occur.

I might add that while I am sure it is upsetting that not all of the Transportation Trust Funds are currently being applied to transportation outlays, it is my understanding of the history over the last 20 years that highway account outlays have substantially exceeded trust fund tax receipts.

More generally, CBO estimates that if one were to take all activities which have some trust fund financing and ask the question "what is the net affect on the deficit of the revenues and outlays on those programs," the answer, perhaps surprisingly, is that general fund revenues fund major portions of activities that are partially and/or heavily financed by trust fund revenues. Thus, from another perspective the general treasury is "subsidizing" overall trust fund activity. Whether one should view the glass as half-empty or half-full I leave aside. My point here is only that

it would be unwise to open a Pandora's box by moving Transportation Trust Funds off-budget.

While there are many problems with the existing unified budget—by far the most important of which is the lack of serious accrual accounting—I believe that despite the concerns of people paying the user fees (we in California, myself included, drive a lot and thus pay lots of Federal gasoline taxes), or those wishing to spend additional resources on transportation, the Transportation Trust Fund should remain part of the unified budget. It would risk a serious accountability and control problem if Congress opens a Pandora's box of trust fund escape from budgetary discipline.

I hope these remarks are useful to you as you debate this and related issues. Best personal wishes.

Cordially,

MICHAEL J. BOSKIN,
Professor of Economics.

RUTGERS CAMPUS AT CAMDEN,
STATE UNIVERSITY OF NEW JERSEY,
Camden, NJ, September 5, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR CONGRESSMAN WOLF: In response to your letter of August 23, I am happy to send this answer to your question about whether the Federal Transportation Trust Funds, particularly the Highway Trust Fund, should be taken "off-budget."

I must say that I agree with both James R. Miller and Alice Rivlin in strongly opposing the removal of the trust funds from the unified Federal budget.

As a political scientist specializing in transportation policy, I have been researching and writing about the issue of the trust fund approach to highway and transportation funding for 15 years. Taking the trust funds off-budget represents just the latest in a long line of unjustified claims for special treatment for one particular type of revenue and expenditure. It reflects, not good government or good public finance, but the political strength of special interests, mainly the highway lobby.

The Federal Highway Trust Fund (and its State-level cousins) has always been a bit of a fraud, designed to convince the public that their modest pennies per gallon highway taxes were paying all the costs of the road system. Overwhelming evidence has accumulated that this is not the case, and that at least 40 percent of total highway construction, maintenance, and operations costs are subsidized by the general taxpayers.

The other unjustified contention is that would be a "breech of contract" to "divert" motor fuel tax revenues to nonhighway uses. This claim for special privilege for "highway user fees" has caused no end of mischief. The United States still has a long way to go before it reaches the point of being able to compare and evaluate investments of scarce public moneys across modes and between transportation and other uses that our major trading partners attained decades ago.

In my book, "Miles To Go: European and American Transportation Policies" (MIT Press), I recount how the British finally put paid to the notion that motor taxes deserved special treatment. When Winston Churchill was Chancellor of the Exchequer (Treasury Minister) in 1926–27, he began to make money from the road fund that Lloyd George had created in 1909 with a parliamentary promise to spend the proceeds from taxes on cars and petrol on roads. When motorists' groups such as the Royal Automobile Club accused Churchill of "raiding" the road Fund like a pirate, he thundered back:

"Whoever said that motorists were to contribute nothing for all time to the general revenue of the country * * *? Entertainments may be taxed; public houses may be taxed; race horses may be taxed; possession of armorial bearings and manservants may be taxed—and the yield devoted to the general revenue. But motorists are to be privileged for all time to have the whole yield of the tax on motors devoted to roads. Obviously this is all nonsense. Whoever said that, whatever the yield of these taxes, and whatever the poverty of the country, we were to build roads, and nothing but roads, from this yield? We might have to cripple our trade by increased taxation of income; we might even be unable to pay for the upkeep of our fleet. But never mind, whatever happens, the whole yield of the taxes on motors must be spent on roads * * * Such contentions are absurd, and constitute at once an outrage upon the sovereignty of Parliament and upon common sense."

It would be nice to see an American politician rise to his "finest hour" with this kind of challenge to entrenched interests.

In recent years the trend has been to move away from the inflexibility and the special treatment of rigid single mode trust funds. Granting off-budget status would be a step backward. I strongly urge you to resist this effort, and I would be happy to provide you with further information and arguments if you so desire.

Sincerely yours,

JAMES A. DUNN, Jr.,
Associate Professor.

NATIONAL CENTER FOR POLICY ANALYSIS,
Washington, DC, October 6, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR FRANK: Thanks for your kind letter of September 26.

I don't know that my advice is technical enough to be included as part of your record, but I would say this:

In 8 years as Governor, I fought very hard to keep all funds on budget and avoid setting up the many little pockets of privilege that separate budget items create for various interests. Once you have your own source of funds, you are not nearly as accountable to the Congress, nor is the Congress able to properly supervise the expenditures of the country.

The best way to handle finances is to have all the money come into a single place and then be appropriated out again through congressional action. The Transportation Trust Fund is one example, but there are legions of others in Washington, as you well know.

I think that keeping funds on-budget is the better choice to make.

Sincerely,

PETE DU PONT,
Policy Chairman.

THE UNIVERSITY OF IOWA,
Iowa City, IA, September 6, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR MR. CHAIRMAN: In response to your request, I am writing to offer my thoughts on the issue of moving the Highway Trust Fund off-budget. As you are very well aware, there are reasonably compelling arguments for and against doing so. I will briefly assess these arguments and provide my conclusions.

In principle, the efficacy of a separate, off-budget Highway Trust Fund is largely based on two points:

- In its pure form, the so-called pay-as-you-go concept means that users of the Nation's highway system should defray its entire cost, and they should be assured that their user fees will go to providing the services for which they are paying.
- Moving the Highway Trust Fund off-budget helps moderate the illusion that the Nation's deficit is less than actually is the case, if the trust fund's receipts exceed expenditures in a given year. The GAO report you sent suggests that this "masking" does occur in some years but not that many.

The main reasons for keeping the Highway Trust Fund and other trust funds part of the unified budget are:

- It helps enable revenue generated from all sources to be allocated among the activities of government. Tradeoffs among competing programs can be treated more explicitly as the Nation's priorities are explored.
- The overall magnitude of government spending, and hence the draw away from the private sector, can be more readily comprehended by decisionmakers and citizens alike. This, of course, facilitates debate on the appropriate scale of government activity.
- Conceptually, fees paid by users of the Nation's highways can be thought of as just another revenue source. As you probably know, in Great Britain less than half of the highway user fees actually are spent on the highway system. There is no theoretical reason why highway user revenue or any other user revenue must be spent

on the activity from which it is drawn. This point is significant because, as Alice Rivlin says, trust fund revenue accounts for about one-third of the total.

Whether or not to move the Highway Trust Fund off-budget is in the end a political decision that unfortunately cannot be guided much by economic theory. It seems to me that the key points surrounding this decision are:

- Treating the Highway Trust Fund as a separate account would enable a stable level of well-defined resources to be available for reinvestment in the Nation's highway system (and in ground transportation more generally). According to the Congressional Budget Office, the backlog of highway system resurfacing, restoration, rehabilitation, and reconstruction (4R) needs has grown to a level such that an annual reinvestment of over $27 billion would be required to eliminate this backlog. Oftentimes, 4R projects lack the political appeal of new construction, but reductions in the highway system performance will pose an increasing threat to the Nation's economy.
- If the political will exists, the same or even a greater level of expenditures on transportation infrastructure is possible through a unified budget. As noted earlier and in the GAO document you sent, in recent years more has been spent for this purpose than has been paid by highway users (drawing down the trust fund's balance). I do not have a good sense of how likely Congress is to make transportation infrastructure a relatively high priority in its budgeting process during the coming years. Simply stated, a unified budget poses an opportunity and possibly a risk to transportation. Past indications are that this risk is nominal, other than the deficit-reduction draw on the motor fuel tax of recent years.
- The wisdom of using Highway Trust Fund resources for nontransportation purposes is in part dependent on the desirability of motor fuel and use taxes as revenue-generating mechanisms. Neither is seriously regressive, the administrative costs associated with them are nominal, and the fuel tax is comparatively invisible. To the extent that it is visible, the fuel tax contributes to fuel conservation. If fuel taxes were raised significantly, marginal changes in industrial location and choice of transportation mode could occur.
- Using the argument of transportation investment as a means for strengthening the Nation's economic competitiveness is a double-edged sword. If individual projects or at least clusters of projects are selected on the basis of benefits to society exceeding costs, transportation investment can indeed strengthen competitiveness. But if projects are selected as demonstration projects and on other nonscientific bases, then the funds spent on transportation are much less certain to foster long-term growth. In my opinion, the process of determining how available Highway Trust Fund resources should be spent is more important an issue than whether or not to move the trust fund off-budget.

Thank you for asking me to comment on this important policy issue. If I can be of any further assistance, please feel free to contact me.

Sincerely,

DAVID J. FORKENBROCK,
Professor and Director.

HARVARD UNIVERSITY,
Cambridge, MA, October 2, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR CONGRESSMAN WOLF: Thank you for your letter of September 26 on the treatment of Transportation Trust Funds in the budgetary process. I entirely agree with Alice Rivlin and James Miller that these trust funds should be considered as part of the unified budget. In fact, I cannot see the case for having a separate status for these trust funds nor for a policy of keeping them in balance over time.

Perhaps I may add that the heavy emphasis on gasoline taxes for the financing of highways is misplaced in my view. In many cases, especially for major rural roads, tolls are a more appropriate user fee. I also fail to understand why gasoline taxes could not be raised above the level used for highway construction and related expenditures.

Finally, I have long felt that the Federal Government plays too large a role in transportation. The primary responsibility should be left with the States.

Yours sincerely,

HENDRIK S. HOUTHAKKER,
Professor of Economics.

BIRMINGHAM-SOUTHERN COLLEGE,
DIVISION OF ECONOMICS AND BUSINESS ADMINISTRATION,
Birmingham, AL, October 16, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR CHAIRMAN WOLF: In my personal opinion, the proposal to move the Transportation Trust Funds off-budget, as provided for in H.R. 842 would not be in the public interest. Here is why I think so.

Every effort should be made to enable interested and informed citizens to readily see and understand the extent and cost of the Federal Government's involvement in the affairs of the country. The task is already most difficult, if not impossible. Taking this well-known and proper function of interstate transportation and removing it from budget totals makes an overall view even more difficult.

Our present practice of contingent credit enhancement by various Federal programs has exposed the government to enormous possible future costs with little control of the risks. The recent debacle of the savings and loan industry and the costs of funding the Resolution Trust Corporation is a too-vivid example. No one knows where the next such problem may arise. Nor can the Congress or the public measure the benefits of such programs with their possible costs.

Our repeated practice of regulating the use of private resources so as to meet public or even political goals continues to hide or disguise an enormous indirect tax borne by everyone. Moreover we have no way in which to measure either the costs or the benefits of this form of indirect taxation. But we all know the real costs are there.

When one looks at the extent of present obscure and indirect Federal involvement, I think we will be better served to keep all possible programs on-budget and highly visible. The present earmarking of highway funds is not a reason to remove them from the unified budget.

Sincerely,

PHILIP C. JACKSON, Jr.,
Adjunct Professor.

SHERMAN J. MAISEL ASSOCIATES,
ECONOMIC AND FINANCIAL CONSULTANTS,
San Francisco, CA, October 20, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR MR. CHAIRMAN: I am writing in response to your letter of October 13, 1995, requesting my views on the issue of moving the Transportation Trust Funds off-budget.

I believe that it is important that we retain a unified budget that includes all trust funds. A key concept of the Federal budget is that it measures and reflects the total impact of the government's receipts and expenditures on the economy.

In the past, the failure to obtain a measure of the government's total effect on economic activity led to many untoward experiences. This was a key reason for adopting and maintaining the unified budget.

Action now to remove the trust funds and destroy the concept of a unified budget would directly contravene all of the efforts Congress is making through the reconciliation bill to improve the economic effect of the government on the economy.

Sincerely,

SHERMAN J. MAISEL,
Former Governor of the Federal Reserve System.

G. WILLIAM MILLER & CO., INC.,
Washington, DC, October 18, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR FRANK: Many thanks for your letter of October 13 inviting me to express my views on the proposal for moving the Transportation Trust Funds out of the unified budget.

The introduction of the unified budget came about after careful bipartisan study and support. Any decision to depart from or modify the system should be approached with great caution, and an exclusion of any trust fund from the unified budget should be done only if there is overwhelming demonstration that this would better serve the Nation's budgetary process. I do not believe a case has been made for excluding the Transportation Trust Fund. From my experience as Secretary of the Treasury and Chairman of the Board of Governors of the Federal Reserve System, I would strongly recommend that you retain the present treatment of the Transportation Trust Funds so that there is no opportunity for losing accountability or setting precedent for further off-balance sheet structures.

You have received persuasive analyses from the General Accounting Office and from present and former heads of OMB. I will not go over the ground again, but I do concur in the recommendations you received. I will point out, however, that the two points made by GAO—namely, masking and need for capital budgeting—can be solved in ways other than excluding trust funds from the unified budget. It would certainly be possible to present the unified budget on a fund account basis, so there would be transparency for all trust funds. It is also feasible to divide the present cash budget into a system of operating expenses and capital expenditures. These changes do not require removing any of the trust funds from the budget.

Your leadership can be very helpful in maintaining a strong system of budget accountability.

Best wishes.

Sincerely,

BILL.

THOMAS G. MOORE,
Palo Alto, CA, October 1, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR MR. CHAIRMAN: In a letter of September 26, you requested my views on whether the Transportation Trust Fund should remain a part of the unified budget. I agree with Jim Miller and Alice Rivlin that it should.

As most economists would agree, the overall budget allocates the amount of resources diverted from private hands to uses determined by the government; it also establishes the deficit, which subtracts from total savings in the United States and thus means either higher interest rates or the importation of more capital. Whether the transportation budget is officially included in the unified budget changes neither spending nor the deficit. In other words, defining the transportation budget as on- or off-budget is meaningless unless its status results in more government spending or higher tax receipts and thus in the size of government outlays and in the deficit. The proponents of moving the Transportation Trust Fund off-budget hope to be able to justify greater spending on transportation as a consequence. Unless offset elsewhere, this would boost both government spending and increase the size of the deficit.

I understand that proponents of moving the trust fund off-budget view the gas tax as a users' fee that pays for transportation infrastructure. Although not an unreasonable argument it ignores the major issues, the size of government, and the budget deficit. It is the Congress' responsibility to determine the size of the government, a matter which should not be subject to the vagaries of the gasoline tax. Congress should also set priorities for the spending of taxpayers' funds, no matter what their source.

A surplus in the trust fund can provide a useful counter to some who would like to boost taxes on the transportation industries, ostensibly for environmental purposes. Since environmentalists often contend that the auto is being subsidized, the surplus in the trust fund helps offset that argument. They sometimes contend that motor vehicles have externalities that imply larger costs for society than are included in the normal outlays on highways. To the extent that this is true, running a surplus in the trust fund may in part counterbalance that externality.

Sincerely yours,

THOMAS GALE MOORE.

BROWN UNIVERSITY,
Providence, RI, September 29, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR CONGRESSMAN WOLF: I am writing in response to your letter of 26 September 1995 inviting my views on whether Federal Transportation Trust Funds should be taken off-budget.

In analyzing most economic issues relating to the Federal budget, economists ignore the distinction between on-budget and off-budget revenues and expenditures. That is, economists work with total revenues and total outlays, often using the definitions in the national income and product accounts. Congressional decisions to remove certain activities from the unified budget will have little or no effect on economists' analyses of fiscal policy issues.

There is much to recommend the practice of financing certain activities that benefit particular individuals and/or firms with taxes and fees on those particular activities. The "user-pays" principle often promotes efficiency and equity; segregated accounts promote matching particular revenues with particular outlays. There is no necessary connection, however, between this principle and the overall accounting for Federal outlays and revenues. No matter what the budget concepts, at the end of the day Congress will require an overall accounting of total revenues and total outlays, whether by including everything in "the" budget or by adding together on-budget and off-budget activities.

What the off-budget issue is really about is a policy debate on how to finance a particular activity and how to use revenues raised from a particular source. Taking an activity off-budget reflects a decision to support that activity by the earmarked revenues only, and to raise the earmarked taxes if the outlays on this activity are to rise. Conversely, revenues from the earmarked sources are to be used for the specified activities only, and not for general governmental purposes. An off-budget Highway Trust Fund most definitely should not mean that we will spend on highways without regard to whether the highways are needed or not. What such a fund should mean is that revenues above those needed will be returned to the taxpayers through a cut in the gasoline tax.

The on/off-budget issue is complicated by the current system of budgetary caps. Congress enacted these caps in an effort to impose more spending discipline on itself, and I believe that the caps have been useful in this regard. If the Highway Trust Fund, or any other activity, is taken off-budget to reflect a policy commitment to maintain a segregated accounting of earmarked revenues and particular outlays, then I strongly recommend that the activities nevertheless continue to be subject to the same caps process as before. That is, these activities should continue to be counted as on-budget for purposes of the caps calculations. Any other treatment is an open invitation to remove one item after another from budget discipline; that is sure to be a distracting, confusing, and counterproductive debate at this difficult time of dealing with major (and long overdue) revisions in the Federal budget.

Sincerely,

WILLIAM POOLE,
Professor of Economics.

R.J. SAULNIER,
Chestertown, MD, September 30, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR MR. WOLF: Because the result would be to hide the full magnitude of the flows of money into and out of the coffers of the Federal Government, a result that would seriously handicap the analyst in following what is happening in our economy, I hope that your committee will do all it can to prevent the Transportation Trust Funds from being moved "off-budget." The reasons for keeping these funds "on budget" have been correctly and adequately spelled out in the responses to your committee by James Miller and Alice Rivlin, and I am glad to associate myself with their views.

Respectfully yours,

RAYMOND J. SAULNIER,
Chairman, CEA, 1956–61.

AMERICAN ENTERPRISE INSTITUTE
FOR PUBLIC POLICY RESEARCH,
Washington, DC, September 26, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR CONGRESSMAN WOLF: I am replying to your letter of September 12, 1995, about the Transportation Trust Fund. I would not favor moving the trust funds off the budget. We want to have a comprehensive measure of the Federal Government's fiscal activities. Keeping the Transportation Trust Fund in the budget does not preclude any rules you may want to adopt about requiring that all receipts of the trust fund be spent for transportation, in every single year or over any specified number of years.

Sincerely yours,

HERBERT STEIN.

JAMES D. WOLFENSOHN, INC.,
New York, NY, October 18, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR FRANK: I am responding to your letter of October 13 asking for my view on the budgetary treatment of Federal Transportation Trust Funds. I am glad to respond briefly to a question that has been reviewed frequently over the years and to which a succession of administrations and most Congresses have, explicitly or implicitly, taken a consistent position.

At the start, I should point out that while your inquiry is specifically about Transportation Trust Funds, a distinction between those funds and others would be difficult to sustain. That is one important consideration in my conclusion that the current treatment of including the Transportation Trust Funds in the unified budget remains appropriate.

Obviously, conflicting considerations arise in determining appropriate budgetary treatment for trust funds. On the one hand, the decision to establish a trust fund may reflect a considered decision at a point in time to maintain designated spending in an amount related to specific revenues. Arguably, the designated spending may have particular attributes—for "investment" or for "social purposes"—that Congress may wish protected from cyclical or other budgetary exigencies. Moreover, an argument can be made that building up surpluses in the trust accounts, with the surpluses invested in government securities, tends to shield other spending from appropriate budgetary discipline. That is, of course, a consideration with respect to the large Social Security Trust Funds.

On the other hand, principles of administration and budgeting demand regular review and control of the full range of government spending, balancing one priority against another. At the same time, effective fiscal policy forces consideration of the totality of spending in relation to revenues.

These latter considerations strike me as persuasive in reaching my conclusion that the present practice of including the Transportation Trust Funds in the unified budget should be continued. I am reinforced in that conclusion by the fact that nothing in the unified budget prevents the Congress and the administration from reaching a decision to maintain highway spending (or any other spending) at a particular level it deems a priority matter. Trust fund accounting within the unified budget may in some instances be helpful in reaching that decision.

To repeat, I conclude that the Congress should maintain the present unified budget treatment as both present and former Budget Directors have urged in writing you.

Sincerely,

PAUL A. VOLCKER,
Chairman.

JAMES D. WOLFENSOHN, INC.,
New York, NY, February 1, 1996.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR FRANK: I have reread my letter of October 18 on the Transportation Trust Fund issue and really have no further thoughts. I realize moving some or all of the trust funds (particularly Social Security) off-budget might well lend even further force to the urgency of our budgetary problem. That is a powerful argument right now, but I think longer run considerations of effective budgeting and of consistency over time should prevail.

I appreciate your interest.

Sincerely,

PAUL A. VOLCKER,
Chairman.

UNIVERSITY OF CALIFORNIA, LOS ANGELES,
DEPARTMENT OF URBAN PLANNING,
Los Angeles, CA, September 4, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR MR. WOLF: I am responding to your letter of August 23, in which you were kind enough to solicit my views on the question of whether or not the Transportation Trust Fund should be moved "off-budget." I have reviewed the materials included with your letter, and had already given a great deal of thought to this important question.

I believe that the Highway Trust Fund should remain part of the unified budget. I support the maintenance of a separate trust fund into which highway user fees are deposited, and from which major highway related expenses of the Federal Government are paid. Maintenance of the integrity of the trust fund surely does not, however, require that it be taken "off-budget." Full accounting of Federal income and expenditures can be maintained by showing the trust fund as a separate account within the larger Federal budget.

I oppose the use of trust fund revenues to "mask" a general fund deficit. We have enormous transportation needs in the United States, and it would be unfortunate if earmarked transportation funds were held unspent in the trust fund just to create the appearance that the Federal deficit is thereby being reduced. This problem can also be addressed by properly accounting for the trust fund as a separate category within the unified budget, however, and does not require that the trust fund be removed from the unified budget.

From the materials which you forwarded to me, it would appear that my position is essentially identical to that taken by the Office of Management and Budget and the General Accounting Office. I encourage you to take a strong position of leadership on this important matter. The Highway Trust Fund should both be kept "on-budget" and should be protected from efforts to use it to "mask" the Federal deficit.

Sincerely,

MARTIN WACHS,
Director, Institute of Transportation Studies.

WASHINGTON UNIVERSITY IN ST. LOUIS,
CENTER FOR THE STUDY OF AMERICAN BUSINESS,
St. Louis, MO, October 5, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR MR. CHAIRMAN: This is in response to your letter of September 26, 1995, with regard to the Transportation Trust Funds. I believe they should stay in the budget so that the budget review process remains comprehensive and an effective way for Congress to exercise the power of the purse.

This was the position that, as an adviser, I urged the Commission on Budget Concepts to adopt several decades ago in developing the concept of the unified budget. The transportation taxes are revenues of the Federal Government; the transpor-

tation outlays are expenditures of the Federal Government. This is the basic justification for putting these funds into the Federal budget.

The alternative—to keep them separate from the budget—shields these programs from being reviewed in the context of national priorities. That would be bad budgeting.

Best wishes.

Sincerely,

MURRAY WEIDENBAUM,
Chairman and Mallinckrodt Distinguished University Professor.

P.S. I served as a professional staff member of the U.S. Bureau of the Budget, 1949–1957.

THE BROOKINGS INSTITUTION,
ECONOMIC STUDIES,
Washington, DC, August 25, 1995.

Hon. FRANK WOLF,
Chairman, Subcommittee on Transportation,
House Committee on Appropriations, Washington, DC.

DEAR CONGRESSMAN WOLF: I am responding to your letter of August 23, 1995, soliciting my views on the appropriateness of moving Transportation Trust Funds off-budget. I should first tell you that I am not an expert on the budget process or the Federal transportation budget. My field of specialization is transportation economics and my thoughts about your inquiry reflect that perspective.

That said, I think the issue you are concerned with is secondary to the important question to be asked about transportation spending. The important question is whether Federal transportation spending is efficient? Based on the available evidence the answer appears to be no! Auto pricing ignores congestion, bus and rail prices are too low (below marginal cost), bus and rail service is inefficient and load factors are too low, bus and rail operations are inefficient, and so on. These problems are not the result of whether trust funds are on-budget. They are the result of poor transportation management at all levels of government. Prices must reflect marginal costs, service must reflect cost-benefit tradeoffs, and inefficiencies must be purged from operations. In this environment, there would be no need for trust funds. Indeed, the issue of whether a transportation system makes money would be irrelevant because its viability would be justified on social welfare considerations.

Current policy, which relies on the gas tax and trust funds, invites political debate instead of thwarting it. In short, my advice is to change your perspective on transportation spending by focussing on how to make it more efficient. The budgetary issue is largely irrelevant to that goal.

Sincerely,

CLIFFORD WINSTON,
Senior Fellow.

Chairman KASICH. Thank you, Mr. Chairman.

Let me just say that there is nobody you will meet in Congress who has more passion than Frank Wolf, and no one in Congress you will meet who attempts to be more consistent. Right, Frank? Nobody is consistent all the time, but you are one of the ones that does the best.

I want to talk about demonstration projects. I am convinced we invent these terms so nobody can understand what we are talking about who live outside the beltway. Tell us about demonstration projects, what they are, how they work, and what you have done.

Mr. WOLF. They generally are pork, and what we have done in the committee, is we have taken out all of the highway demonstration projects.

Chairman KASICH. What does that mean? What do you mean by pork?

Mr. WOLF. They were projects where Members would sit around and decide who got the projects. They would look to see if you had voted the right way on a certain bill. They would look to see what

committee you were on, if you had been a good person in their estimation or not, and based on that, you would get your project.

You will all recall several years ago, one Senator in one State got 47 percent of all the highway demo money in the country, and so what we did is rather than cutting the FAA and rather than cutting safety and cutting the Coast Guard, we eliminated all of the highway demonstration projects, and, Mr. Coleman worked with us in a bipartisan effort in support of eliminating those projects.

Instead, all of the highway money is reallocated by the formula, the highway formula that has been set up. As long as I am working in this policy area, we are never going to put highway demonstration projects back in the bill.

In fact, as a GAO study shows, the highway demonstration projects almost never fit in with a State plan. The States didn't want them.

Chairman KASICH. I just wanted to get the demos on the record.

Now I would like Mr. Coleman to be given the time to testify in terms of what he wants to say, and I want to applaud him for coming here. I think it takes some guts to stand up and say we have got to pay our bills.

Mr. Coleman, you are now recognized for your statement.

STATEMENT OF MR. COLEMAN

Mr. COLEMAN. Thank you very much, Mr. Chairman, and I appreciate the opportunity to testify before this distinguished committee.

Like my Appropriations Committee colleagues who have testified before me, I believe moving the Transportation Trust Funds off-budget would not result in the best public policy.

I, too, would submit my entire statement for the record and only highlight something that I didn't have actually in my statement because I was only able to ask the question this morning.

As a member of the Treasury Postal Subcommittee, we have the opportunity to interview those who work at the White House for the President. One of those agencies that was, by the way, scheduled for elimination last year is called the Council of Economic Advisers. I happen to be an advocate of letting the President hire the persons he wants within reason to do the jobs that he wanted to do.

Chairman Lightfoot had felt quite honestly, as a matter of fact, that it was duplicative and didn't need to be done. I think we have made the case pretty well that we like long-term economic projections.

So I thought I would go ahead and use the opportunity to ask about this particular issue, since I knew I was going to testify today on the subject, of Dr. Joseph Stiglitz, who is the chairman. I would ask anybody that is unaware of his credentials to just please check them out. The people he has taught become Ph.D.'s at major universities in economics. He works in international economies as well.

When I asked him about this particular issue, he said I think what you do is you take away from the Congress its own flexibility, and I thought about that for a minute. I thought, you know, that is exactly what this does do.

The very issues that Chairman Wolf just spoke to, the allocation of resources after the Budget Committee takes its action and the division among the 13 subcommittees is critical.

We have to make decisions as a Congress, and Republicans and Democrats and the House and the Senate must make those decisions in a way that we believe is in the best interest of the Nation. That is what we are elected to do. People shouldn't be shocked about that. That is what we are all here for, to make choices, to make decisions. I think we have done a pretty good job.

The Budget Act, the issue since the 1960's and 1970's, the Budget Act, all of those things have certainly added some complications to the process. I submit to you, if you want it more complicated, Mr. Chairman, do this because now this is going to be a segment that would be out of reach of the committees, the various subcommittees to deal with the problems facing this country.

What is wrong with us allocating additional resources to given projects? I recall recently the earthquake in California that took a major interstate down, a major interstate in a very large and most populous State in this country. I can say to you that I thought that the effort by the State and by the Federal Government, by FEMA, by everybody who was involved was magnificent. Why? Because there was an emergency, and this country responded.

Good grief, we have done that throughout our history. We respond to emergencies because we are big and we are strong and we can do it. So I don't think restricting the actions and the ability of Congress to act is appropriate.

So, Mr. Chairman, I only want to reiterate what Chairman Wolf has said. You are right about your comments, Mr. Chairman, initially about Chairman Wolf. He stuck to his guns. There was a lot of pressure by Members to see to it that we did not eliminate demonstration projects. I support him in that effort because I think he is right.

I would only add that I would like to see demonstration projects in the other committee, the authorizing committee, come under our review, just like they have done on the Appropriations Committee. I suspect that the process may not be so different, Mr. Chairman.

So, in any event, let us all look at the long term. There is nothing wrong with us looking at the long-term economics of such a move.

By the way, just in closing, I wanted to add, Mr. Chairman, that I would be remiss if I didn't publicly have the opportunity to thank you for your fine efforts over the last year. Your job is one of the most difficult in the Congress. Those of us who have worked with other chairmen fully know this, and I want to thank you on behalf of the people of my congressional district.

Thank you.

[The prepared statement of Hon. Ronald D. Coleman follows:]

PREPARED STATEMENT OF HON. RONALD D. COLEMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Chairman, thank you for the opportunity to testify before the Budget Committee regarding one of the perennial budget issues of our day—whether to unravel the unified budget methods that have worked well since the 1960's and consider the Transportation Trust Funds off-budget. Like my Appropriations Committee col-

leagues testifying before you today, I believe moving the Transportation Trust Funds off-budget would not result in the best public policy.

Let me state from the outset that as the ranking minority member of the Appropriations Subcommittee on Transportation, I am a strong supporter of maintaining and enhancing the viability of the Transportation Trust Funds. I believe our Nation must continue to invest an appropriate amount into transportation infrastructure projects in order to keep our economy strong and growing. Building and maintaining our highways, bridges, airports, shipping ports, and other components of our transportation system is a critical part of the responsibility of Congress to keep our Nation prosperous. The Transportation Trust Funds are the primary vehicles which enable us to fulfill this responsibility, so we must act to keep them secure.

However, I am convinced that moving the trust funds off-budget would cause more harm than good. While I can easily understand and sympathize with the desire to enhance the trust funds so we can invest more funds into projects, I believe moving them off-budget would create a number of difficult problems and set dangerous precedents. Allow me to list a few of them for you.

First, the unified budgeting method is critical for assisting the Congress and the President in deciding how to treat all revenues and expenditures in a coherent manner. It is essential to bring together all Federal income and expenses in a unified way to avoid the problem of considering some programs in a vacuum. It is important to recognize that any Federal activity affects our Nation's economy as a whole. Clearly, the Transportation Trust Funds qualify as affecting our economy significantly. Because of their large economic impact, considering them separately from other accounts which affect economic activity would complicate and distort Federal economic considerations. In my mind it is far better to have all components of our economic strategy in plain view and as part of a unified whole to make decision making easier and more coherent.

Second, moving the trust funds off-budget would further complicate the budget process. Everyone agrees that the Federal budget process is already arcane and nearly impenetrable. Considering this set of programs apart from all of the rest of the budget would mean adding another dimension to the process. I believe Congress should not do this and should instead avoid creating additional complications and headaches. In this way, we can fulfill our basic duty to at least do no further harm.

Third, moving the trust funds off-budget would lead to demands to move all other trust funds off-budget. We should not fool ourselves into believing that this would not happen; we have plenty of legislative history to know it would. If the Transportation Trust Funds were taken off budget, it would be difficult to justify not doing the same with all other trust funds. We would be asked the following legitimate questions: Why are the transportation trust funds special? Why don't all other trust funds get the same preferential treatment? These questions can't be answered in a fair manner without either placing Congress in the predicament of having to pick winners and losers among trust fund programs, or being forced to move all trust funds off-budget with all of the associated problems that decision would entail.

Fourth, if, for reasons of fairness, all trust funds were moved off-budget, I predict there would be greatly increased pressure to spend more money. In addition to using currently available surpluses for existing programs, I have no doubt many interests would create new needs for additional spending of trust fund surpluses, whether those needs really exist. In these times of fiscal austerity, it makes no sense to create additional spending pressures and make the deficit larger.

Fifth, I am not convinced that moving the Transportation Trust Funds off-budget would result in more expenditures for transportation projects. It seems fair and accurate to say that the interest payments from the Treasury to the trust funds have helped to increase the amount of surplus. While it can be argued that the interest payments are only fair returns for borrowing against the trust funds, they have also enabled greater spending from the trust funds than would have been possible without borrowing and then repaying with interest. So, moving the trust funds off-budget and preventing future interest payments may not really enhance transportation expenditures.

Sixth, removing the trust funds from the unified budget would result in decreased funding for transportation projects that receive their funding from general revenues. Not using the surpluses in the Transportation Trust Funds to calculate the amount of overall available funds means that spending levels for other programs have to be cut. In this case, we would be pitting some types of transportation needs against others. If we are truly concerned about building a solid transportation infrastructure, why would we want to play favorites and possibly secure the funding for some types of projects and not others?

We should also keep in mind that the unified budget does not prevent Congress from spending more on transportation projects if it chooses to do so. The Congress

has all the authority it needs to authorize and appropriate more funds for transportation projects or other national priorities any time it wants. The only requirements for spending more are to be convinced of a genuine need and then to follow through with the appropriate legislation.

Finally, let me say that the experience of my home State of Texas shows that moving transportation funds off-budget doesn't insulate that money from use for other purposes. Even though Article 8, Section 7(a) of the Texas State Constitution clearly and specifically states that all State taxes on motor fuels collected to finance transportation projects must be spent on transportation projects, money from the off-budget transportation funds have been used for other programs. For example, transportation fund money has been used to purchase land to build prisons. Now, the transportation department holds the title to this land, so in theory it is still a transportation department asset. But, the actual use of the land to build a prison has little to do with fulfilling transportation needs. Similarly, the supposedly protected transportation fund has been used to finance the construction and maintenance of parking lots for State mental health agency facilities. In my mind, neither of these examples fulfill transportation needs in the state of Texas.

Perhaps the most significant breach of security for the off-budget Texas transportation fund took place during the 1980's. The State's general revenue fund was running low, so an arrangement was made to borrow $280 million from the transportation fund. The payback provision of the agreement included the payment of interest, but because of the State's ability to repay the loan quicker than originally anticipated, no interest was actually paid to the transportation fund for the time its money was used. So much for a "secure" off-budget transportation fund.

In summary, Mr. Chairman, while I am a strong believer in the need to fund transportation projects to the greatest extent possible, moving the Transportation Trust Funds off-budget would unravel the unified budget process and make it more difficult to make proper decisions on economic matters. It would also needlessly further complicate the budget process, lead to demands to move other trust funds off-budget which would increase spending at the time we are trying to balance the budget, and probably not increase funding of transportation projects overall. And, as I have described to the committee, the experience of my home State of Texas strongly suggests that moving funds off-budget doesn't really make them more secure. For all of these many reasons I urge the committee not to endorse any proposal to move the Transportation Trust Funds off-budget.

Thank you.

Chairman KASICH. Thank you, Mr. Coleman. What about the other 13 years I have been here?

Mr. COLEMAN. Well, up until that year, Mr. Chairman—actually, we have an Ohio State and University of Texas issue that we have been dealing with for a lot of years.

Chairman KASICH. Let me have you explain how these demonstration projects are like entitlements. Aren't they?

Mr. COLEMAN. Yes.

Let me only add one other thing.

Chairman KASICH. Like Medicare.

Mr. COLEMAN. They are very easy to attack, though, Mr. Chairman, in the sense that they are all bad, and that is not the case.

Chairman KASICH. Yes.

Mr. COLEMAN. A lot of us represent districts that are not the highlight star communities in the State.

My congressional district is 600 miles from the State capital. It is 600 miles from the second-largest city, and 800 miles from the largest city. We get kind of short shrift in my own State allocation, and as the chairman said, sometimes they are not on the State list, but I know a need exists. So I feel it is my responsibility as a Representative of that congressional district. When I see a crying need for arterials for border crossings to move commerce and people between two nations and three States, because New Mexico is associated with us, I sometimes see a need for us to allocate those resources.

To call them demonstration projects is stupid. I happen to agree with the chairman and you. What we ought to call it is a failure of attention by the State to make that a priority in the State. Why is the Congress having to address it? Because of that. So they are not all bad, I must say.

Let me only add this, too. The Senator that was referred to doesn't have a lot of other kinds of transit projects that he referred to in his State. So I happen to know, in fact, he very openly in the conference defended his actions in his State. They don't build airports and they don't build mass transit systems to the extent that other States do.

So I am just saying to you, I think it is easy to condemn them all. I don't do that. At the same time, I think it is wrong for us to continue down that path. I think we are far better when we let States make decisions, and if States are making the wrong decision, we should call them up here and ask them how it is they are using our Federal funds.

Chairman KASICH. I have got to make a speech, and I am going to let Charlie Bass take over the committee, but it is not our Federal funds. I don't want to even send the money to Washington anymore. Let the States keep it and do what they want.

Frank, I wanted to ask you, how are we doing to win this tomorrow or whenever it comes up?

Mr. WOLF. Well, three things. The Senator that I referred to, I want the record to show, is a fine and decent person and somebody who I have admired and have great respect for over many, many years, and that is Senator Byrd from West Virginia. I have admired him from afar when I watched him as a Senator go to law school at night time. So I don't want anything in the record that infers that I am criticizing Senator Byrd. Personally, I like him and admire him.

Secondly, though, the way that we get control of this, to give you one example, if there is no oversight, you were to take this off-budget, everyone on this committee should know it was a central arterial project which everyone up here except for one voted for in 1985. The cost of the project at that time in Boston was $2.5 billion for 7½ miles. The project has now gone up, according to the GAO and the IG that we have had to look at it, to $10.4 to $11 billion for 7½ miles. There is no oversight.

That project is needed. We are working with the IG in the State to bring the cost down, whereby it can be dealt with, but from $2.5 billion to $11 billion. Clearly, the way that we are going to win it—I didn't know that we could do it, frankly, without your support. The fact that you and Mr. Sabo have gotten involved, I think we are back in the game, and the chances are probably—we are still behind, but I think we can make it with your passion and Mr. Sabo's passion and the logic on the floor. I think we have a reasonable chance to do it.

Chairman KASICH. Let me ask you, Frank, if over this break and for the remaining hours we are here in the House if you are willing to get on the phone and talk to Members about what this is all about.

Mr. WOLF. I will do that.

Chairman KASICH. I think it is Tyson/Bruno. I think we are Bruno. It is tough to beat Santa Claus. Santa Claus has got one heck of a knockout punch.

Let me recognize Mr. Sabo, and Mr. Bass is going to take the chair, our great freshman from New Hampshire, a tight-fisted guy, I think.

You are not on this bill, are you? OK. Then, you can take the chair.

Mr. SABO. Thank you, Mr. Chairman.

I am sorry I didn't hear your comments. I, frankly, had to do a phone interview on the line-item veto and it relates to some of your discussion. I am an opponent of the line-item veto. I made the observation—I gather you got in some discussion of "demo projects," which is unrelated to this issue—but my observation was that, again, the Congress has always appropriated less than the Presidents have historically. The difference is in what we call pork. Normally Presidential pork is big projects, and I think the line-item veto makes it more difficult for Congress to modify big pork.

As it relates to this specific project, in this specific bill, Appropriations has regularly at times tried to get more FAA operations out of the trust fund. I don't know if you spoke to this issue, but as I recall, all the studies would indicate that if FAA operations were to pay their fair share from the trust fund, it would be about 85 percent of the operational cost. It is substantially less than that today and has been substantially less than that historically.

I recall Congressman Bill Lehman one year trying to increase it and getting run over. I think the reality is that when people talk about money in trust funds, if I remember right, if the trust fund had been paying 85 percent of FAA's operational costs, that fund would have no surplus. In fact, it might even be minus.

Mr. WOLF. That is accurate. It is now 50 percent.

Mr. SABO. Yes. It should be 85. Maybe 15 percent of it is public cost. Is that not accurate?

Mr. WOLF. It is now 50 percent.

Mr. SABO. I know it is 50, but studies have indicated that if it paid its actual cost, it should be 85.

Mr. WOLF. You are right.

Mr. SABO. You are also ultimately right that this is about money. If we are going to spend more on these particular projects, there is less someplace else.

If, in fact, we are not trying to meet either deficit targets or balance the budget, then, clearly, money can be spent. But if we are trying to meet deficit targets or balance the budget, clearly, if we are going to spend more for these four particular programs, it either means less spending on other discretionary programs or deeper entitlement cuts and Medicare, Medicaid, welfare, or whatever, but those are the big ones, that is available. Is that not right?

Mr. WOLF. That is exactly right. That is exactly right. There is no other way to do it.

Mr. SABO. So it is sort of setting up some program as preference that need not have concern about discretionary spending levels. It is not part of the tradeoffs of larger budget negotiations. They are isolated, removed from that debate. They have a free ride, no inter-

est in what happens in setting discretionary spending limits in relationship to modifications and entitlement programs.

Mr. WOLF. And no oversight.

Mr. SABO. And no oversight.

Mr. COLEMAN. If I might, Mr. Sabo, make one comment about that. One of the problems we are having, I think, in this argument when we are talking about dealing with our colleagues, some States do it like my State. We have a dedicated highway fund. It is a dedicated tax from the gasoline tax. Again, three-fourths of the gasoline tax, State tax, goes to highways, and one-fourth to the schools. I always wondered if that was a right priority myself, but nonetheless, that is in our Constitution. It has been there since the mid to late 1940's.

I will tell you that while that sounds good, and as a matter of fact, most people in Texas like that system, the difficulty has come, from time to time, when there was a need in the 1980's by the legislature for dollars. They went ahead and borrowed the money and was supposed to pay it back with interest. The interest issue came up earlier.

They paid it back not with interest. In addition to that, the State used some of the moneys at another time to buy some land on which a prison was built. The Texas Highway Department or Texas Trust Fund owns the land still. It is not probably ever going to be used for anything other than that prison or part of the prison system.

My point simply being is that even though it is a strongly held view that you will obey the Constitution, there seems to be ways that people manage, when necessary, to get into those kinds of funds. The restrictions that it has caused oftentimes, though, are not good either.

We also from this level of government have a different obligation than States do. I am always interested that we always say States have it, Governors have it. Governors don't build a Defense Department to the extent that we do as a Nation. There are differences.

I just would submit to you that when we make the argument about this issue, simply equating the Federal Government with a State is not a valid thing to do, and I would hope that we could get past some of those arguments because there are major differences in how we deal overall with the economy.

I would just make that point in passing because I think that is going to be one of our difficulties in defending the position that the Appropriations Committee is taking.

Mr. SABO. I thank you.

Mr. BASS [presiding]. I have just a couple of quick questions for you two gentlemen.

The first panel, Mr. Shuster and Mr. Oberstar, indicated that the obligation limits would still be available to the Appropriations Committee if the trust funds were taken off-budget. The obligation limits they suggested would be a method of preventing the trust fund from spending wildly and would enable us still to get to balance by the year 2002. Do you share this view, and if not, what are your observations with respect to that?

Mr. WOLF. I don't share the view, but I feel very uncomfortable in this role because the debate is breaking down between the Ap-

propriations Committee and those not on the Appropriations Committee, the authorizers. There are good and decent people on both sides of the issue. I am kind of uncomfortable and am trying to control this because I am—you know, I am not going to be here forever. In fact, maybe next year I may say to Livingston, hey, Bob, I would like to get off the Transportation Appropriations Committee and I want to be chairman of another subcommittee. There isn't anything in stone that I am going to be here forever. So I feel very uncomfortable getting into where it is a committee-versus-committee.

Secondly, I feel very uncomfortable in getting into what is personality versus personality. I want to stipulate again for the record, there are good and decent people on both sides. That is just not a statement. There are.

I think what Mr. Livingston said was accurate. I don't see how you could possibly do it. If it changed at all, they would object. So it would be basically meaningless, even if there was some way of doing it.

Mr. BASS. In other words, it would very hard to set limits in the absence of any spending caps.

Mr. WOLF. I don't see how you could do it.

Mr. COLEMAN. There is no reason for him to do it. There is no pressure to do that.

Mr. BASS. How many other trust funds are there that are of a similar nature to this trust fund?

Mr. WOLF. A similar nature, I think there are 160-some. Your two witnesses, Mr. Schick has forgotten more about this than I will ever, ever know. He may be able to answer that. I think there are a total of 160-some funds. How many are operating exactly like this, I am not sure.

Mr. BASS. The previous panel also indicated that an option was to abolish the tax and return the money, let the States do whatever they want. What is your feeling about that?

Mr. WOLF. I think you could return a portion of it. I think you would have to keep some. You would have to keep some for safety. You would have to keep some to have some federalized programs for big, large interstate-type projects, but I personally think that what Mr. Kasich says makes sense. I think you could return a portion of it back to the States, whereby the States would have to spend it for only transportation. If you return it to them where they could put it in whatever they want to, they wouldn't use it for transportation. You are finding many States getting their gasoline tax and using it for many nontransportation issues. So, if you can take it, return it to the State, I think it would make a lot of sense.

I don't think you could return it all to the States because we need NHTSA. We need the National Transportation Safety Board. We do need a function at the Federal level, but much funding could be turned back.

As for the Highway Trust Fund, the formula ought to be changed because the formula is based on 1980 census data when the world was different. Here we are in 1996.

Mr. COLEMAN. I was just going to add to that. I think that is one of the most ridiculous parts about this whole business. If you want to try to fix what is wrong with the system, fix the formula. We

contribute to our States. We understand why we have done it. We have built the interstate system.

We knew that, for example, Iowa, Nebraska, or New Hampshire may not have been able to gather all of the funds necessary to do their full 100-percent share of an interstate system. So other States, the contributing States, did that, the larger States. We understand and recognize that.

The interstate system is built. What we are interested in doing now is at least giving us a formula that allows us to use the 1990 census. We have huge population increases in States like California, Texas, and Florida. I would submit to you that for us we think there are a lot of things wrong with the current system. Returning the money to the States, saying that is going to be the only answer, isn't the answer.

I am very much opposed to that idea. I think it would adversely affect school funding and other things.

In my State, I just think that what we have to do is think about working with the formulas here at the Federal level, and we have a Federal obligation. If you return it all to the States, the Boston Harbor tunnelway or the 7.5 miles that the chairman just spoke to is a classic example of why you want Federal oversight, it sounds to me. I can't imagine us saying on the one hand we want to give all the money back to the States, and what are you going to do, have no Federal oversight? Somebody is going to have to pay for that Federal oversight.

It is amazing, isn't it, that the things that we want, you have to pay for? Those are things that we ought to be thinking about.

Mr. BASS. Thank you.

Mr. Olver.

Mr. OLVER. Thank you, Mr. Chairman.

I could explore at some length the question of how much you send back to the States with needs like an interstate system and other standardization and what kind of formula is involved, but I think I would prefer, since I can have that exploration with Members as I wish, to hear from the other panel as quickly as possible.

Mr. BASS. Thank you.

Mr. Pomeroy.

Mr. POMEROY. No questions.

Mr. BASS. Thank you very much. Thank you both for appearing today. It was very helpful.

The chair will now recognize our third panelists, Mr. Schick and Mr. Luberoff.

Thank you very much for appearing here today.

Do we have any name plates?

Whichever one of you wishes to begin first can proceed.

STATEMENTS OF A PANEL CONSISTING OF ALLEN SCHICK, VISITING FELLOW, BROOKINGS INSTITUTION; AND DAVID LUBEROFF, ASSISTANT DIRECTOR, TAUBMAN CENTER FOR STATE AND LOCAL GOVERNMENT, HARVARD UNIVERSITY'S KENNEDY SCHOOL OF GOVERNMENT

STATEMENT OF MR. SCHICK

Mr. SCHICK. Thank you, Mr. Chairman. I know the time is late. It is actually the lunch hour, and I think a good clue to where this issue is going to go is to see whether "iced tea" is being served at lunch because that legislation is where the issue might be resolved next year, I believe.

My position is that the trust funds, all of them, highway, airports, and the other Transportation Trust Funds, ought to be on-budget. I believe that the issue is really not on-budget versus off-budget, but whether these funds ought to continue to be controlled like other parts of the budget, by the discretionary caps and PAYGO rules established by the Budget Enforcement Act of 1990.

This is the core of the issue, not to take them off-budget, but to take them off budget control. H.R. 842 would not only remove the trust funds from the budget, but also exempt them from sequestration under the Gramm-Rudman Act and the caps under the Budget Enforcement Act.

I would like to abbreviate my statement and ask that the whole text be inserted in the record; but I just want to make two points. One is that there are a number of myths with respect to the trust funds, and No. 2, that the effects of removing these funds off the budget are not simply what they seem to be.

Myth No. 1 is that transportation has been shortchanged by the unified budget and by the congressional budget process. Data appended to my statement show that in the 20 years that the congressional budget process has been in operation, highways and other transportation needs have done just about as well as defense, better than education, better than social services, better than natural resources, better than environment, better than agriculture, better than community/regional development, better than international affairs, better than veterans benefits, better than energy, better than commerce, and housing credit. So much for the argument that transportation has been shortchanged by the budget controls in place.

Myth No. 2 is that money has been hoarded in the trust funds to reduce the overall budget deficit. The fact of the matter pointed out by the chairman and by the ranking minority member is that out of tax funds, the trust funds have spent more than they have taken in; and what we are talking about now is interest paid out of the general funds.

The third myth is that the trust funds pay their own way. This clearly is not the case. Since 1988, for example, Congress has contributed on average out of the general fund of the United States $2.5 billion a year to finance aviation needs. That is $2.5 billion a year. There would be no surplus in the aviation trust fund if that trust fund paid its own way.

Myth No. 4 is that Congress has diverted Transportation Trust Funds to other purposes. Not a single dollar in these trust funds

have ever lapsed. Not a single dollar in these trust funds have ever been diverted to other needs of the Federal Government.

Let me make the point that if the transportation funds were taken off-budget, there would be a strong incentive for Congress to divert money out of the trust fund to the budget; here is why.

As long as you have a unified budget as the Federal Government has today, switching money from transportation to the general fund doesn't reduce the Federal budget deficit by a single dollar. But once you set up a separate funding structure outside the budget, then if you raid the trust funds to bring the money within the general fund, you would be reducing the budget deficit, dollar for dollar.

If you take $10 billion out of the Transportation Trust Fund today, you reduce the budget deficit by zero. Under H.R. 842, if you take $10 billion out of the trust fund, you will reduce the budget deficit by $10 billion. This, in fact, is the reason why States frequently dip into their trust funds in order to finance the general fund.

The final myth I want to call attention to is that money in the trust fund is sacrosanct. Look at the story of the Highway Trust Fund over the last 15 years. In 1982, Congress decreed that a portion of the money should go to transit rather than to highways. In 1990, Congress earmarked a portion of the gas tax for the general fund. A couple of years ago, Congress decreed that beginning in fiscal 1996, 2.5 cents of the gas tax, which was being paid into the general fund, should be paid into the transportation fund. If that 2.5 cents per gallon were not rediverted into the Highway Trust Fund, there would be none of the surpluses that we are talking about.

Now for the implications of off-budget status, just very briefly.

No. 1, if Congress were to give the trust funds off-budget status, it would have to come to grips with the constitutional status of these funds in enforcing a balanced budget requirement. Keep in mind that the Balanced Budget Amendment which was passed by the House two-thirds vote a year ago and might be taken up this year or next in the Senate doesn't refer to the budget of the United States. It says in any fiscal year, the outlays of the United States shall not exceed the receipts of the United States.

Those outlays include on-budget outlays and off-budget outlays. So we would have to come to grips with the question of whether the highway and airports money should be exempted from the constitutional provision.

Let me assure you, Mr. Chairman, it is very easy to get around that constitutional provision. The States provide many examples: Set up a transportation corporation. You can write into the law that the transportation corporation is not deemed to be an entity of the United States, then not only does it escape budgetary control, it also escapes constitutional control as well.

Second, Congress would be pressured to raise taxes in order to maintain transportation expenditures on a steady growth path. Imagine if under H.R. 842 we draw-down all of the balances in the trust fund in the next several years. That would occur if we were to boost annual outlays out of the trust fund by $3 to $5 billion. That level of spending will not be sustainable because the fund will

no longer be earning as much interest. Not more than 5 years from now, the same people coming to Congress saying take transportation off-budget will come to Congress and say raise transportation taxes because the well is running dry in the trust fund.

Third, Congress would be pressured to make even deeper cuts in discretionary outlays than those contemplated in the fiscal 1996 budget resolution and President Clinton's budget. OMB will be required by law to downward adjust the discretionary caps to compensate for the fact that these funds would no longer be part of the discretionary budget; thus leaving a smaller pool of money for defense, education, housing, veterans, and all the other programs funded out of the discretionary budget.

Congress will be pressured to remove other funds or programs from the budget. One can envision all of the other trust funds, following the Highway Trust Fund out of the Federal budget, and then, of course, the general fund will be the repository for those programs that are weak or don't have any opportunity to escape the budget. These programs will be in terribly bad shape. Everybody will be boasting how robust the trust funds are, and Uncle Sam will be flat broke.

Finally, if we take trust funds off-budget, we will be pressured to earmark other Federal tax revenue to other programs, thereby causing further deterioration in the condition of the general fund.

It is very easy to earmark money, to redirect it from the general fund to some trust fund. It is very easy, then, to decide that any money in the trust fund shall be off the budget. It is very easy in step No. 3 to say that now that it is off-budget, it ought to escape budgetary control as well. These are things that are easy to do, that are what H.R. 842 would do.

Let me conclude, Mr. Chairman, by saying that H.R. 842 is labeled "The Truth in Budgeting Act." This is precisely what Congress needs. Truth in budgeting doesn't mean escape from budgeting.

Thank you very much.

[The prepared statement of Allen Schick follows:]

PREPARED STATEMENT OF ALLEN SCHICK, VISITING FELLOW, THE BROOKINGS INSTITUTION

Mr. Chairman, I am delighted to have the opportunity to testify on an issue that goes to the heart of the struggle to control Federal spending and to achieve a balanced budget. Let me state at the outset that the proposal to remove the Transportation Trust Funds from the budget is not a technical matter; if adopted, it would impair Congress' ability to effectively control the budget. H.R. 842 goes far beyond according off-budget status to these trust funds; it would also exempt the funds from the discretionary caps and PAYGO rules established by the Budget Enforcement Act (BEA) of 1990 and from the sequestration procedures of the Gramm-Rudman Act. In fact, the discretionary caps are the driving force in the move to take the trust funds off-budget, if there were no statutory limits on discretionary spending, there would be little clamor for off-budget status.

THE TRUTH ABOUT BUDGETING FOR TRANSPORTATION

Before discussing the implications of removing the trust funds from the budget, it would be worthwhile to dispel some myths about Federal spending on transportation. Myth No. 1 is that transportation has been shortchanged by the unified budget and by the congressional budget process. The plain fact is that transportation has fared reasonably well during the 20 years that the congressional budget process has been in operation. Between 1976 and 1996, transportation spending—most of which is accounted for by the trust funds—almost tripled from $13.7 billion

to $39.8 billion. Transportation was in the middle range in terms of spending growth during this period. Table 2 ranks all budget functions in terms of the rate of growth. It shows that transportation outlays increased about as much as defense, and faster than veterans, agriculture, education, and half a dozen other budget functions. Some functions did much better, but most are the "uncontrollable" parts of the budget, such as interest charges, Medicare, and other health expenditures, income security, and Social Security. The outlays of the Transportation Trust Funds also held their own during this period. Fiscal 1995 outlays of the Highway Trust Fund were almost 250 percent higher than they were 20 years earlier when the congressional budget process was started.

Transportation also has held its own in the competition for discretionary funds controlled by annual appropriations. The discretionary caps have now been in effect for 5 completed fiscal years. During this period (1991–1995), total discretionary spending grew only 2 percent, and discretionary domestic spending increased 30 percent. But outlays of the Airports and Airways Trust Fund rose 40 percent, and those of the Highway Trust Fund advanced 44 percent. These data do not support the argument that transportation needs have been shortchanged.

Myth No. 2 is that money has been hoarded in the trust funds to reduce the overall budget deficit. In fact, the outlays of the Highway Trust Fund exceeded the fund's tax revenues in 18 of the 39 years between 1957, when the fund commenced operations, and 1995, the last completed fiscal year. The entire balance accumulated in the fund has been due to interest paid by the Treasury into this fund. Over the full 39 years, outlays exceeded tax revenues by $6 billion. During this period, however, the fund received $25 billion in interest payments from the Treasury, leaving an overall balance of approximately $20 billion.

But this is not the whole story. Two other considerations have to be introduced into the discussion. One is that if the trust funds had spent all their interest revenue in the past—as H.R. 842 would require—allowable spending out of the Highway Trust Fund would decline. In 1994, for example, spending in the Highway Trust Fund would have been $4 billion less than it actually was if the fund had not been permitted to accumulate any balance. In that year, only $18 billion in taxes were paid into the fund, but outlays amounted to $22 billion. If all past balances had been spent, the Department of Transportation would not have been able to maintain spending at the current rate.

The second consideration is that the cash balances in the funds are needed to pay commitments that have already been made. The Highway Trust Fund started the 1996 fiscal year with a balance of about $19 billion and unpaid commitments of about $46 billion. These commitments will come due as transportation projects are completed and the States submit bills to the Department of Transportation. The Airports and Airways Trust Fund began the year with a cash balance of less than $12 billion and unpaid commitments of about $6 billion. With the loss of expected revenue due to the expiration of the 10-percent tax on airline tickets, the fund may soon face a situation in which its unpaid commitments exceed cash balances. The data demonstrate that there is no unencumbered balance in the fund. On an accrual basis, the highway fund might be in deficit.

Myth No. 3 is that the trust funds pay their own way. This may be true of certain funds, but certainly not of all. Each year, Congress appropriates billions of dollars of general funds to pay operating expenses of the Federal Aviation Administration. Since 1988, Congress has averaged $2.5 billion a year in general fund appropriations for FAA operations. Perhaps the legislation proposing to take this fund off-budget should be amended to include a provision requiring users to pay the full cost of the Airports and Airways System.

Myth No. 4 is that Congress has diverted Transportation Trust Fund money to other purposes. The plain truth is that every dollar paid into these trust funds has been used solely for transportation purposes. Tax receipts and interest receipts have been used solely for transportation; there has never been a diversion of these funds, and there will not be a diversion, whether H.R. 842 is enacted or not. All balances in the trust fund remain available indefinitely; unlike 1-year appropriations, they do not lapse at the end of the fiscal year. Indeed, not only do they not lapse, they earn interest.

If the trust funds were removed from the budget, as H.R. 842 proposes, there would be a strong incentive for Congress to divert "surplus" money from transportation into the general fund. I base this concern on the behavior of some States that have entirely separate funds for transportation and general expenditures. Let me explain why off-budget status would boost the probability that the transportation funds would be raided. As long as Transportation Trust Funds are consolidated with other funds in the unified budget, there would be no change in the overall budget deficit if Congress were to transfer money from transportation to the general fund.

The unified budget deficit would be exactly the same after funds were diverted as it was before. If, however, transportation were walled off from the Federal budget, any shift of funds from it to the general fund would reduce the official budget deficit by an amount equal to the transfer. The following table depicts the impact on the fiscal 1995 budget deficit if the Highway Trust Fund were off-budget and Congress legislated a transfer of Highway Trust Fund surpluses into the general fund.

TABLE 1.—ESTIMATED EFFECTS OF DIVERSION OF TRUST FUNDS ON BUDGET DEFICIT

[Fiscal year 1995; billions of dollars]

	Highway Trust Fund on-budget	Highway Trust Fund off-budget
Trust Fund Balance	$19	$19
Budget Deficit	164	165
Transfer of Balance to General Fund	−19	−19
Budget Deficit After Transfer	164	146

Myth No. 5 is that the moneys in the trust funds are sacrosanct. All trust funds have been established pursuant to laws that determine which moneys are to be paid into the various funds. These laws have been changed from time to time, causing the balances in the funds to rise or fall. There is no doubt about the legal authority of Congress to alter the budgetary treatment of user charges. In 1982, for example, Congress decided that a portion of the gas tax should be paid into a new transit fund rather than into the Highway Trust Fund. In 1990, Congress earmarked a portion of the gas tax increase enacted that year for the general fund. It also decreed that, beginning with the 1996 fiscal year, 2.5 cents of that tax should be paid into the Highway Trust Fund rather than into the general fund.

What would happen if Congress changed its mind again and decided that the 2.5-cents-per-gallon payment should remain in the general fund? The answer is quite simple. Using a rule of thumb that each penny increase in the gas tax yields $1 billion in revenue, the receipts of the Highway Trust Fund would be $2.5 billion (plus any interest earned on this amount) below the level projected in the fiscal 1997 budget. Rather than the balance in the Highway Trust Fund rising, it would stabilize or decline slightly in the next few years. In other words, the balance in the trust funds is entirely the result of the accounting rules legislated by Congress.

IMPLICATIONS OF OFF-BUDGET STATUS

The first part of my statement examined the way the trust funds have operated thus far; the remainder of my statement discusses potential impacts of off-budget status. In my view, if the Transportation Trust Funds were exempted from general budget controls, Congress will face the following unpleasant situations in the future:

- It will be pressured to exempt the Transportation Trust Funds from the balanced budget amendment to the Constitution.
- It will be pressured to raise taxes in order to maintain transportation expenditures on a steady growth path.
- It will be pressured to make even deeper cuts in discretionary outlays than those contemplated in the fiscal 1996 budget resolution adopted by Congress or in the fiscal 1997 budget proposed by President Clinton.
- It will face pressure to remove other funds and programs from the budget.
- It will be pressured to earmark Federal receipts to other programs, thereby causing further deterioration in the condition of the general fund.

Off-budget status and the balanced budget amendment. H.R. 842 proposes to exempt the Transportation Trust Funds from general budget controls, but it cannot exempt them from constitutional requirements. The balanced budget amendment that was approved by two-thirds of the House in 1995 and fell one vote short of the two-thirds margin in the Senate does not differentiate between funds that are included in the budget and those that are excluded. The operative language of the amendment provides that in any fiscal year, the outlays of the U.S. Government shall not exceed the receipts of the government.

Off-budget funds would be included in the receipts and outlays of the United States; hence they would be in the annual calculation of budget totals.

But there would be a way for Congress to exempt even off-budget funds from any balanced budget rule. All it would take would be a law establishing the Transportation Trust Funds as public corporations and providing that these new corporations shall not be entities of the U.S. Government. Doing so may seem to be complicated

and difficult, but actually this is quite easy. If will not be difficult for Congress to devise gimmicks that shield "sacred cows" against constitutional controls.

Transportation taxes. If H.R. 842 were enacted, it would probably result in a modest upsurge in trust fund outlays. Some have estimated that the increase would be at least $3 billion per year. Increased spending would mean a drawdown in cash balances, lower interest earnings by the funds, and outlays significantly above tax receipts. However, this trend would not be sustainable unless Congress boosted the tax on motor fuels or on airline tickets.

Let us assume, for example, that during the next 4 years, annual outlays of the Highway Trust Fund average $26 billion rather than the $23 billion projected in the President's budget. If this were to occur, the fund would begin the year 2000 with a cash balance of less than $20 billion, rather than the $33 billion currently projected. This low balance would likely trigger the Byrd amendment, which caps unpaid commitments at the unexpended balance plus projected income for the next 2 years. Under this scenario, advocates of highway programs can be expected to lobby Congress for a tax increase to permit spending to be sustained at high levels.

Discretionary outlays. I believe that the main impact of H.R. 842 would be to exempt the Transportation Trust Funds from the limitations on discretionary spending. These trust funds operate under unusual rules. Their budget authority is scored as direct spending, but the outlays generated by the funds are classified as discretionary spending. If the trust funds are exempted from BEA, OMB probably would have to lower the discretionary limitations by an amount equal to current outlays of the Transportation Trust Funds. Inasmuch as discretionary programs will have to bear a substantial portion of the expenditure cuts needed to balance the budget, the pool from which these cuts will be taken will be smaller, and the percentage of cutbacks will be correspondingly higher. The Appropriations Committees already face a difficult task meeting the discretionary caps; the task will be even more difficult if and when Congress and the President agree on a balanced budget plan. With transportation exempted, cuts in other discretionary domestic spending might have to be several percentage points higher.

Impact on other funds. Transportation will not be the only or last interest petitioning Congress for off-budget status; interest groups are likely to demand that other trust funds also be accorded preferential status. In the current fiscal year, the combined outlays of all trust funds are projected to be $720 billion, an amount equal to more than 45 percent of total Federal spending. Excluding Social Security, which already is off-budget, trust funds account for $370 billion—30 percent—of on-budget spending. The same arguments that are used for taking the Transportation Trust Funds off-budget can be applied to the remaining trust funds.

Earmarking user charges. Demands for off-budget status need not end with the current array of trust funds. One should not be surprised if enactment of H.R. 842 were to generate fresh demands for earmarking chunks of Federal revenue to particulate funds which then would be able to claim off-budget status on the grounds that they are self-financing.

I shudder to think of what the Federal budget might look like under this "worst case scenario." The budget might be balanced, but the budget would account for a declining portion of Federal spending. The general fund would be the residual fund for weak claimants who do not have sufficient clout to get earmarked revenue, their own trust funds, off-budget protection, and exemption from budget enforcement rules and other controls. I hope Congress will send a message that this is not what "truth in budgeting" is all about. If there is any truth in budgeting, it is that all spending must compete for scarce resources—not that there are protected enclaves and double standards.

TABLE 2.—SPENDING GROWTH OF BUDGET FUNCTIONS, 1976–1995

[Ranked by percentage change]

Function	Percentage change
Medicare	1,021
Net Interest	802
Health	670
Administration of Justice	432
Social Security	375
General Science, Space and Technology	....
Income Security	276
National Defense	196
TRANSPORTATION	189
Education, Training, Employment, and Social Services	186

TABLE 2.—SPENDING GROWTH OF BUDGET FUNCTIONS, 1976–1995—Continued

[Ranked by percentage change]

Function	Percentage change
Natural Resources and Environment	163
Agriculture	143
Community and Regional Development	137
International Affairs	132
Veterans Benefits and Services	105
General Government	39
Energy	−23
Commerce and Housing Credit	−240

Mr. BASS. Thank you.

Mr. Luberoff.

STATEMENT OF MR. LUBEROFF

Mr. LUBEROFF. Thank you very much for the invitation to testify. I, too, have a written statement which I will submit for the record and briefly summarize so that we can go to lunch.

H.R. 842, in my estimation, would be bad policy. It sets a bad precedent, and it will result in bad decisionmaking. It is, in short, a bad bill.

You have heard from many speakers and seen many letters talking about why this is such a bad idea, and I don't think you need me to add to that. I would like to add for the record a quote from Winston Churchill since he seems to be the only person who hasn't been quoted on this issue. He points out, as Dr. Schick pointed out, that there is nothing in the world that says that we can't use Transportation Trust Fund moneys for other uses. Churchill also said, in 1926, "Whoever said that motorists were to contribute nothing for all time to the general revenue of the country * * *? Entertainments may be taxed; public houses may be taxed; racehorses may be taxed; possession of our armorial bearings and manservants may be taxed—and the yields devoted to general revenue. But motorists are to be privileged for all time to have the whole yield of tax on motorists devoted to roads. Obviously, this is nonsense. * * *" I think that that sums up a theme that has come through.

Because my field of expertise is not so much budgeting as it is transportation policy, I would like to spend a couple of minutes talking about some of the arguments that have been used in favor of this bill and some of their implications.

As you heard earlier this morning, the first is a very strong argument that this is absolutely necessary because America's transport infrastructure is crumbling and in dire need of every penny it can get.

The second piece of that argument is that investment in infrastructure will *a priori* lead to some great increase in economic productivity. The second argument is based primarily on research done by David Aschauer and Alicia Munnell several years ago. The consensus within the profession is that that research was badly flawed. Well-thought-out transport investments can lead to increases in transport productivity, but there is no evidence that at the macroeconomic level they will have that effect.

The second fact is that we as a country in constant dollars are spending more on transportation infrastructure than we have ever spent in our history, and that goes across the board for all modes of transportation. Since 1960, there has been a 50-percent increase in spending on highways, a five-fold increase in spending on transit, and a tripling in spending on aviation. This idea of an infrastructure crisis, to my mind, is somewhat overstated.

We heard reports of increasing congestion. It is true that we are seeing reports of increasing congestion. We are also seeing a remarkably consistent amount of time that people are reporting that they spend commuting to work. That figure has barely changed in the last 20 years.

What simply is going on is that people are moving to the suburbs. Jobs have been moving to the suburbs, and so there are more roads congested because previously uncongested suburban roads are now congested, but the average travel time is not changing.

The last point that you heard this morning was engineering studies positing a gap between the amount of money needed to maintain our current transportation systems and the amount of money we are spending. Again, most of us who have looked closely at those studies conclude that they have some fundamental flaws, particularly in their definitions of what is deficient.

Also, they tend to fail to recognize that the major obstacle to increasing infrastructure capacity is not money, but it is the political problem, as all of you know, of siting infrastructure facilities in dense, urban and suburban areas. If you doubt that, think about the fact that in the last 25 years, amid continual reports of disaster for our aviation system, we have built one airport, in Denver. I might add that that has been a fairly expensive undertaking.

Let me turn to a second point. If, in fact, you believe that the transportation user funds ought to be used for transportation purposes, we need to be careful about the question of definitions. What I mean is that transportation, as with most activities, imposes some external costs, for example, air pollution.

There are very, very intense disagreements in the field as to what the number is. The World Resources Institute has estimated $300 billion. Jose Gomez-Ibanez at Harvard University has looked at those studies and said that that number is too big, but the general thrust is right.

So, if we believe that transportation user funds are somehow sacred, then we need to do some sort of full-cost accounting which says they need to pay for all of the costs that transportation imposes, not only direct capital and maintenance costs, but also social costs. One implication might be if you were to take Transportation Trust Funds off-budget in that process they might also have to fund other programs like EPA's Office of Mobile Source Emission.

The other is to say if, in fact, you accept the argument, which I don't, that we are not spending the money out of Transportation Trust Funds, one perfectly respectable intellectual justification is, in fact, we are using that money to cover these external costs.

The last point, which Chairman Kasich spent some time on, is the question of what is the best level of government to set overall spending levels and where decisions about transportation investment should be made. Now, it is not this committee's job to write

that legislation, but as all of you know and as we have heard, right now this is the subject of intense debate.

It seems to me that taking the trust funds off-budget before that debate is resolved is putting the cart before the horse, or in Alice-in-Wonderland terms, it is sort of verdict now, trial later.

Let me conclude, just to reiterate. The idea that Transportation Trust Funds should be removed from the Federal budget is a badly flawed idea, and on that alone, the bill deserves to be defeated.

Second, to make claims that this policy is needed to address a pressing investment gap, is, in the words of Dale Jorgenson, based on fragile statistical foundations.

Third, a good case can be made that transportation users don't pay their way in the current funding system, and finally, there is never a right time to do this, but this point in time is the particularly wrong time to do it.

Thank you very much for the opportunity to speak, and I will be happy to answer any questions.

[The prepared statement of David Luberoff follows:]

PREPARED STATEMENT OF DAVID LUBEROFF, ASSISTANT DIRECTOR, A. ALFRED TAUBMAN CENTER FOR STATE AND LOCAL GOVERNMENT, KENNEDY SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY

Mr. Chairman and members of the committee, thank you for this opportunity to discuss H.R. 842, the "Truth in Budgeting Act" which would move the four Transportation Trust Funds off-budget. While this bill is well-intentioned, in my estimation it would be bad policy, set a bad precedent, and result in bad decisionmaking. To illustrate these assertions I would like to discuss the following four issues:

- The need for a unified budget;
- The claim that the United States is underinvesting in transportation infrastructure;
- The importance of full-cost accounting for transportation; and
- Ways to encourage better decisionmaking about transport spending.

THE NEED FOR A UNIFIED BUDGET

When Federal Reserve Board Chairman Alan Greenspan, OMB Director Alice Rivlin, and former OMB Director James Miller all agree on a policy issue, it's worth paying attention to what they have to say. As you know, they all agree that removing the four Transportation Trust Funds from the unified Federal budget is a bad idea.[1]

The issue is quite clear. Sound budgeting principals require a unified budget particularly in an era when deficit reduction clearly is the primary challenge facing the Congress and the executive branch. As Congress and the executive branch make the difficult decisions required to balance the budget, all sources of spending and revenue should be on the table. In the words of Susan Irving of the General Accounting Office: "any narrowing of choices that the Congress and the President have for making budget tradeoffs increases the difficulty they will face in balancing the budget."[2]

Moving the Transportation Trust Funds off-budget, moreover, could set a dangerous precedent which, to quote Rivlin, might "snowball into an avalanche of requests for similar treatment of other trust funds. * * * We could find about one-third of Federal spending, excluded from the budget, increasing faster than receipts from the public. This would signal to the American people that Congress is not sincere about controlling spending" and likely make it even more difficult to achieve a balanced budget.[3]

This is not to argue that the current unified budget is the best way to account for receipts and expenditures. It is to say, however, that removing the Transportation Trust Funds should not be done in a void. If it is to be done at all, it should

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[1] See October 31, 1995, letter from Federal Reserve Board Chairman Alan Greenspan to Representative Frank Wolf; March 27, 1995, letter from OMB Director Alice Rivlin to Representative John Kasich; and February 7, 1995, letter from James Miller III to "Member of Congress."

[2] U.S. General Accounting Office, "Transportation Trust Funds," GAO/AIMD–95–95R, p. 10.

[3] Letter from OMB Director Alice Rivlin to Representative John Kasich, p. 2.

be part of a large-scale effort to redo the Federal budget in ways that clearly distinguish between long-term investments, current consumption, and ongoing social responsibilities.

THE IMPACT OF REMOVING TRANSPORTATION TRUST FUNDS FROM THE BUDGET

As the various balanced budget plans make clear, eliminating the Federal deficit will require significant cuts in transportation spending. Depending on how we account for gasoline and other excise taxes this, in turn, will increase surpluses in various Transportation Trust Funds. Removing the trust funds from the budget would eliminate the need for cuts and likely lead to increased spending on transportation over time. If Congress and the President are committed to a balanced budget, however, removing the trust funds from the budget will force even deeper cuts in other discretionary spending programs.

Advocates of removing the trust funds from the budget downplay these claims by contending that the trust funds represent an implicit contract between drivers and the government. The contract's key provision is a promise to spend money from user revenues only on transportation infrastructure. Political scientist James Dunn, who has compared transport policies in Europe and America, makes the best argument against this "contract" via a quote from Winston Churchill, who as Chancellor of the Exchequer in 1926 and 1927 led a successful fight to take money from the Road Fund for general purposes. When he was accused of raiding the Fund, he replied:

"Whoever said that motorists were to contribute nothing for all time to the general revenue of the country * * *? Entertainments may be taxed; public houses may be taxed; racehorses may be taxed; possession of armorial bearings and manservants may be taxed—and the yield devoted to the general revenue. But motorists are to be privileged for all time to have the whole yield of the tax on motors devoted to roads. Obviously this is all nonsense. Whoever said that, whatever the yield of these taxes, and whatever the poverty of the country, we were to build roads, and nothing but roads from this yield? We might have to cripple our Trade by increased taxation of income; we might even be unable to pay for the upkeep of our Fleet. But never mind, whatever happens, the whole yield of the taxes on motors must be spent on roads * * * Such contentions are absurd, and constitute at once an outrage upon the sovereignty of Parliament and upon common sense." [4]

MEETING INVESTMENT NEEDS

It is obvious but bears repeating that while those who favor a balanced budget cite the need for cuts in transportation programs as the main reason for keeping the trust funds on budget, fear of such cuts is what motivates those who want to remove the funds from the budget.

Those arguing for removing the funds from the budget, base their argument on three key assumptions. The first is that the United States is underinvesting in transportation infrastructure. The second is that transport users more than "pay their way" under the current financing system. And the last is that the Federal Government should play a major role in closing whatever investment gaps might exist. All three assertions merit closer examination.

As many of you recall, there was in the early to mid 1980's, a furious debate about crumbling infrastructure in this country.[5] The debate reemerged in the late 1980's and early 1990's with publications by economists David Aschauer and Alicia Munnel asserting that underinvestment in infrastructure was a major—if not the major—cause of the Nation's decline in productivity.[6]

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[4] James Dunn, "Miles to Go: European and American Transportation," (Cambridge, MA: MIT Press, 1981), as cited in a September 5, 1995, letter from James Dunn to Representative Frank Wolf.

[5] See, for example, Pat Choate, and Susan Walter, "America in Ruins: Beyond the Public Works Pork Barrel," Washington, DC: Council of State Planning Agencies, 1981; Marshall Kaplan, "Hard Choices: A Report on the Increasing Gap Between America's Infrastructure Needs and Our Ability to Pay for Them: A Study Prepared for the Use of the Subcommittee on Economic Goals and Intergovernmental Policy of the Joint Economic Committee, Congress of the United States," Washington: U.S. GPO 1984; Roger J. Vaughan and Robert Pollard, "Rebuilding America," Washington, DC: Council of State Planning Agencies, 1983–1984; and National Council on Public Works Improvement, "Fragile Foundations: A Report on America's Public Works: Final Report to the President and the Congress," (Washington, DC: National Council on Public Works Improvement, 1988).

[6] See, for example, David Aschauer, "Why Is Infrastructure Important?" in "Is There a Shortfall in Public Capital Investment," Alicia Munnel, ed. Conference Series No. 34, Boston: Federal Reserve Bank of Boston, 1990, pp. 21–50 and Alicia Munnel, "How Does Public Infrastructure Affect Economic Performance," in "Is There a Shortfall in Public Capital Investment," pp. 69–103.

There were, however, two major problems with this research.[7] First, most economists who examined Aschauer and Munnel's work found troubling problems with their methodology.[8] Second, the warnings of a massive infrastructure crisis seem to have been overstated. One example: the total and per capita value of all state-owned structures—a good proxy for public infrastructure—has, in constant dollar terms, generally risen steadily since 1960 as has the value of most privately owned infrastructure (such as telecommunications equipment, electric and gas utilities, some transportation systems, and private water and sewage treatment systems). To be fair, infrastructure as a percentage of all capital stock and infrastructure as a percentage of gross domestic product have both fallen.[9] But that decline is not enormous.

Spending patterns for transportation generally tell the same story, which is not surprising since transportation, particularly spending on highways, makes up the bulk of spending on infrastructure. The Congressional Budget Office's 1995 report on trends in infrastructure spending, for example, estimates that in constant dollars total spending by the Federal Government, States, and localities on transportation infrastructure has doubled in the last 30 years, rising from $76 billion in fiscal year 1960, to $99 billion in 1970, to $117 billion in 1980. It dropped slightly to $113 billion in 1982 at the height of the Reagan-era budget cuts but began rising again and by fiscal year 1991 (the last year CBO had data available) it had risen to $152 billion. These increases, it should be noted, run across the board. In real dollars, highway spending went up by 50 percent, from $44 billion in 1960 to $64 billion in 1990. During the same time, spending on transit increased fivefold—from $3.8 billion to $19.6 billion. Aviation spending also tripled from $4.2 to $13.6 billion.[10] While these figures are admittedly somewhat old, I am unaware of any data suggesting a broad reversal of these trends in the past 5 years.

Despite such figures, advocates for increased spending contend that the United States is underinvesting in transportation infrastructure. This assertion is most often based on engineering needs studies, such as the U.S. Department of Transportation's biennial reports on the conditions and performance of the Nation's surface transportation systems. The most recent of these reports, for example, reports that while the overall condition of the U.S. highway system is improving, the United States needs to spend $44.8 billion a year merely to maintain our existing highway system's conditions and performance but that we only spent $28.8 billion on that effort. Similarly dismal figures are cited for both bridges and transit systems.[11]

How is it possible that despite large-scale increases in spending, system performance is so bad? There are several possible explanations. First, some figures may be overstated. Definitions of deficient bridges, for example, are notoriously suspect. Second, too much money may have been spent on new highways and not enough money was spent on maintenance. Third, there is strong evidence showing states are spending ever more money on administration not roads.[12] Fourth, over the past two decades a variety of interests have successfully lobbied the Federal Government to increase the scope of activities that can be funded from money set aside for highways. Most of this money has gone to for so-called mitigation measures, designed to alleviate real and perceived damages created by new highway facilities. While

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[7] For an excellent overview of the assertions and critiques of them, see Edward Gramlich, "Infrastructure Investment: A Review Essay," Journal of Economic Literature, September 1994, Vol. 32, pp. 1176–1196.

[8] See, for example, Henry Aaron, "Why is Infrastructure Important? Discussion," in Alicia Munnel, ed., "Is There a Shortfall in Public Capital Investment," pp. 51–63. See also, Dale Jorgenson, "Fragile Statistical Foundations: The Macroeconomics of Public Infrastructure Investment," American Enterprise Institute Discussion Paper, February 1991, and Charles Hulten and Robert Schwab, "Is There Too Little Public Capital? Infrastructure and Economic Growth," American Enterprise Institute Discussion Paper, February 1991.

[9] Calculations taken from data in John C. Musgrave and Heather Quick, "Fixed Reproducible Tangible Wealth in the United States: Revised Estimates for 1990–92 and Summary Estimates for 1925–92," "Survey of Current Business," September 1993.

[10] Congressional Budget Office, "Public Infrastructure Spending and an Analysis of the President's Proposals for Infrastructure Spending From 1996 to 2000," (Washington, DC: Congressional Budget Office, June 1995), Table A–8.

[11] U.S. Department of Transportation, "1995 Status of the Nation's Surface Transportation System: Condition and Performance," (Washington, DC: U.S. Department of Transportation, 1995), p. xxxii.

[12] David Hartgen, for example, reports that between 1984 and 1992 administrative costs for State highway departments increased by 14.3 percent, almost four times the rate of inflation while spending on capital improvements increased only 5.3 percent and spending on maintenance increased by 6.3 percent. (See David Hartgen and David Spears, "Resources Versus Results: Comparative Performance of State Highway Systems," (Charlotte, NC: Center for Interdisciplinary Transportation Studies, the University of North Carolina at Charlotte, May 1994), p. 1.)

such measures are almost certainly necessary to allow large-scale projects to their cost of such measures can be enormous.[13] Finally, many economists, however, believe these figures overstate the case because they do not balance the costs of new roads with the benefits they provide. Such economists usually believe that better management of existing roadways, including better use of congestion pricing, would eliminate the need for most new roads.[14]

Why this lengthy discussion about funding trends? Recall that the prime rationale for removing Transportation Trust Funds from the Federal budget is the assertion that the United States is systematically underinvesting in transportation infrastructure. To steal a phrase from Harvard Prof. Dale Jorgenson, that claim is based on "fragile statistical foundations."

FULL COST ACCOUNTING

Even if you accept the argument that revenues paid by transportation users should only be used for transport purposes, there remain many serious questions about how to define those purposes. Specifically, a full-cost accounting system would consider both the direct costs of operating and maintaining transportation systems, but also the indirect social costs—the externalities—created by transportation users, such as air pollution. In recent years, several major environmental groups have argued that such costs are enormous. The World Resources Institute, for example, has estimated that when these costs are factored in, all levels of government in the United States spend $300 billion a year more on surface transportation than they receive in revenues from dedicated taxes on users.[15] Similar estimates have been prepared by both the Natural Resources Defense Council and the Conservation Law Foundation, a regional group in Boston.[16] There are, to be sure, serious methodological flaws with these studies. But a recent careful analysis of them conducted by Harvard University economist Jose Gomez-Ibanez found that "the basic conclusion * * * that most transport users don't pay their way would likely still stand."[17] This conclusion suggests that spending transportation user fee revenues on non-transportation uses can be justified even if one accepts the premise that the user fees are somehow sacrosanct. Alternatively it suggests that if Transportation Trust Funds are to be taken off-budget, then they should also be required to fund programs and policies—such as air pollution control efforts—that address some problems created by motor vehicles.

ENCOURAGING BETTER DECISIONMAKING

The last issue that must be addressed is the question of the best way—and the best level of government—to set overall spending levels and to set spending priorities. These questions are being hotly debated right now in the preliminary discussions about reauthorization of the Nation's surface transportation programs.

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[13] In Los Angeles, for example, the Federal Government, as part of a court agreement allowing construction to proceed on the Century Freeway, a 17.3-mile highway delayed by court battles for over a decade, is funding the construction or reconstruction of at least 2,200 affordable housing units. As part of the agreement, moreover, highway funds also are funding construction of a new transit line, dedicated high occupancy vehicle lanes, and job training programs for minorities and women. These measures are a major reason why the project's estimated costs have risen from $502 million in 1977 to $2.5 billion in 1993. Even when inflation is taken into account, this represents an increase of 131 percent. Such expenditures, moreover, are not anomalies. The Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA), for example, mandates that States set aside about 2 percent of available Federal funds (about $2.4 billion between 1992 and 1997) for nonhighway related enhancements, such as historic preservation and open space preservation. (See Anthony Zamora, "The Century Freeway Consent Decree," Southern California Law Review, (1989, Vol. 62, pp. 1805–1844) and Brian Taylor, "Public Perceptions, Fiscal Realities, and Freeway Planning: The California Case," APA Journal, Winter 1995, pp. 43–56.)

[14] For a good overview of these issues, see Edward Gramlich, "Infrastructure Investment: A Review Essay," Journal of Economic Literature, September 1994, Vol. 32, pp. 1176–1196. See also, Anthony Downs, "Stuck in Traffic: Coping with Peak-Hour Traffic Congestion," (Washington, DC: The Brookings Institution and Cambridge, MA: The Lincoln Institute of Land Policy, 1992).

[15] James MacKenzie, Roger Dower, and Donald D.T. Chen, "The Going Rate: What It Really Costs to Drive," (New York: World Resources Institute, 1992).

[16] Peter Miler and John Moffet, "The Price of Mobility: Uncovering the Hidden Cost of Transportation," (New York: Natural Resources Defense Council, 1993) and Apogee Research, "The Costs of Transportation," (Boston, MA: Conservation Law Foundation, 1994).

[17] Jose Gomez-Ibanez, "Pitfalls in Estimating Whether Transport Users Pay Their Way," (Cambridge, MA: Taubman Center for State and Local Government, Kennedy School of Government, 1996).

It is not this committee's job to write such legislation but it bears mentioning that removing the trust funds from the budget suggests a continuation of a large Federal role in surface transportation policy. This is hardly a unanimous viewpoint—as I'm sure you are aware there is significant disagreement about what the appropriate Federal role should be. There is, however, strong evidence that an overly assertive Federal role is likely to lead to inefficient decisionmaking—because State and local leaders don't have to closely weigh the costs and benefits of many current projects. Moreover, there is strong evidence that devolving more responsibility for both fundraising and spending decisions to the States will lead to more efficient decisionmaking. In a 1985 report, for example, the Congressional Budget Office found that increasing the required State match for wastewater treatment plants led to a dramatic reduction in the costs of those plants.[18]

Would the national interest be served by such policies for transportation infrastructure? As Alice Rivlin argued in her 1992 book, having adequate transportation infrastructure is a critical factor in ensuring regional economic prosperity. States and metropolitan regions, therefore, have a great incentive to raise taxes to build the infrastructure they really need.[19] There is compelling evidence that voters also recognize this fact. As George Peterson has demonstrated, voters regularly—and strongly—support tax increases to pay for increased spending on transportation infrastructure.[20] Indeed, 25 states have increased their taxes since the beginning of 1992 and only 3 States have not raised their gas tax in the last 10 years.

To reiterate the point—moving the trust funds off-budget would reassert a major Federal role at a time when we are embarking on an unprecedented national debate about which levels of government should be responsible for our transport infrastructure. To be blunt, that strikes me as putting the cart before the horse.

CONCLUSION

The idea that Transportation Trust Funds should be removed from the Federal budget is flawed in several respects. To begin with, it makes the claim that one undertaking—transportation investment—is somehow unique and should receive special treatment in the budget. This would be bad policy and will make it that much harder to achieve Congress' much larger goal of balancing the Federal budget. The claim that the policy is needed to address a pressing investment gap, moreover, has little basis in the data. Indeed, a good case can be made that transportation users don't pay their way in the current funding system. Finally, removing the trust funds from the Federal budget at a time when the entire structure of the Federal-aid transportation system is in flux, seems premature and possibly misguided.

This concludes my prepared testimony. I would be happy to answer any questions that you might have.

Mr. BASS. Thank you very much.

I am most intrigued, and I am surprised we didn't discuss this earlier on today, that the removal of the Transportation Trust Funds from the unified budget might actually result in a substantial squeeze in transportation funding which would lead to increased taxes because of the fact that the Highway Trust Fund is out of balance now and no projections as to whether or not it would generate more or less revenue in the future; that perhaps we would have a short-term surplus and a budget pool of $30 billion or whatever the interest amount is, but ultimately, that money would be gone, and then there would be a question as to how you fund your existing obligations.

The other issue that needs to be addressed is the issue of the 162 other little puppies, as you would call them, and the impact that that would have on Mr. Livingston's chart here in which we have a new piece of the pie that would be, I guess, trust fund expendi-

[18] Kenneth Rubin, "Efficient Investments in Wastewater Treatment Plants," (Washington, DC: U.S. Congress, Congressional Budget Office, 1985).

[19] Alice Rivlin, "Reviving the American Dream: The Economy, the States and the Federal Government," (Washington, DC: Brookings Institution, 1992).

[20] George Peterson, "Is Infrastructure Being Undersupplied?" in Alicia Munnel, ed. "Is There a Shortfall in Public Capital Investment?" pp. 113–130.

tures, and what it would do to the entitlement side of some of those trust funds being entitlement trust funds.

I guess my question for you gentlemen, perhaps Mr. Schick because he has talked about the budget more, if I can quote from the beginning of the legislative language in the Truth and Budgeting Act, it says: "Notwithstanding any other provision of law, the receipts and disbursements of the four transportation funds shall not be counted as new budget authority, outlays, receipts or deficit or surplus for the purposes of: (a) the budget of the U.S. Government submitted by the President; and (b) the congressional budget; or (c) the Balanced Budget and Emergency Deficit Control Act."

It seems to me that this says, basically, beginning the enactment of this law, obligations of the Federal Government are no longer obligations of the Federal Government. Is that what it means to you? How do you interpret that?

Mr. SCHICK. No, sir. It would have the best of both worlds. They would continue to be obligations of the government, but they would escape the ordinary controls that obligations are subject to.

The legal status as obligations would not be impaired, but the budgetary status of obligations would be greatly transformed.

Mr. BASS. Thank you.

Mr. Sabo.

Mr. SABO. Thank you both for your testimony.

I am just curious to the degree that either of you have looked at this perception that the auto pays for itself through the gas tax in our society.

I have not worked on this as an environmental issue. But the reality is, I think that at the local level, through local property taxes, there is an immense subsidy of the automobile.

A number of years ago, I saw some numbers that indicated that about half the public safety cost of local cities was directly related to auto traffic, and I introduced a bill in the first or second term that increased the gas tax and refunded it automatically to the State of the collection, with half or two-thirds of it going to local cities for public safety and one-third to the States for public safety. I couldn't generate much interest in it. I still think it's a concept that makes sense.

The reality is that there are real limits on the ability of the States to vary gas taxes from State to State. You are going to have a slight variation, but not much, particularly at the border of your State or you have a real problem.

So I think there is a real Federal role for doing it, but the reality is that auto traffic is heavily subsidized in our society today, primarily on probably one of the more regressive taxes, the local property tax, from what I have observed.

Mr. LUBEROFF. I think you are right that we subsidize automobile transportation. We tend to do it in ways that don't show up in budgets.

The public safety question, in particular, is a tricky one. For example, some of the studies put all of the costs of police work that goes into tracking down people who steal cars. Are cars responsible for people stealing cars, or if you remove cars, would a certain group of people still steal and do things for other money or thrills? So, when you try and do a very careful accounting of this, it is

probably wrong to put all of those costs onto automobiles. On the other hand, there is a certain amount of money that clearly goes into traffic enforcement that is a cost imposed by automobiles.

I want to back up, also, onto a point from the earlier question. I read some of this whole fight, as one of the speakers commented earlier, as an accounting measure. Actually, Allen, it was you who commented that the 2.5 cents that previously went to deficit reduction is now going into the Highway Trust Fund. Absent that 2.5 cents, the Highway Trust Fund cannot sustain for much longer, as I read it, the current level of spending out of the trust fund. According to the last figures that I looked at, the trust fund is spending out about $20 billion a year and it is taking in before that new money about $17 or $18 billion a year.

So I see this fight from a distance as the question about whether or not the highways are going to get that 2.5 cents in reality or if it is, in fact, going to build up in the trust funds. It appears, if you look at the budget resolutions, that the highway spending is going to go down because it makes up such a large chunk of transportation spending.

Mr. BASS. Thank you very much.

There being no other committee members here, I would like to thank you both for appearing here today. Your testimony was very important and interesting.

There being no other business, this hearing will be adjourned.

[Whereupon, at 1:20 p.m., the committee was adjourned.]

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